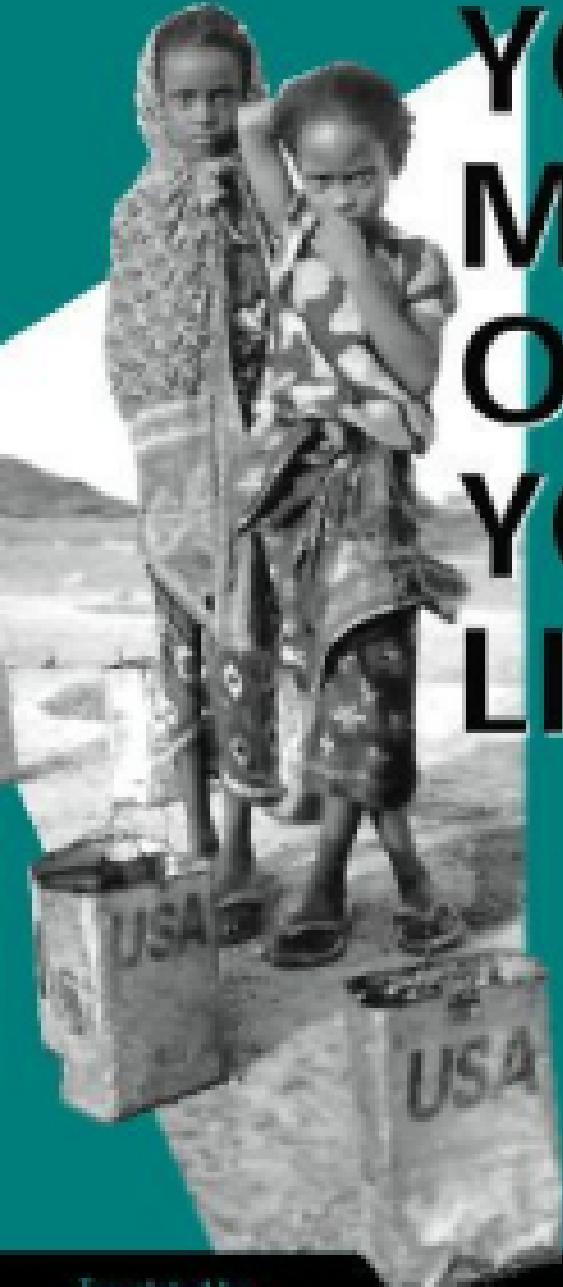


*Eric Toussaint*



# YOUR MONEY OR YOUR LIFE!

the  
tyranny  
of global  
finance

Translated by  
**Raghu Krishnan**  
with Vicki Briault Marcus



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**Eric Toussaint**

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# **Your Money or Your Life!**

## **The Tyranny of Global Finance**

Translated by Raghu Krishnan  
with the collaboration of Vicki Briault Manus

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# Dedication

This work is dedicated to my parents, José Toussaint (1920–97) and Rose Clermont-Toussaint; to Ernest Mandel (1923–95), Marxist activist in word and deed; and to Carl Cesar (age 10) of Muriqui, Rio de Janeiro state, in the hope that he will have both the desire and the right to go to school; and to all those women and men struggling for their emancipation.

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# Foreword

Contemporary history can be described as that of the conquest of the world by an ever smaller number of huge conglomerates organised into multinational corporations. These corporations are engaged in a permanent war with one another to control markets with the shared aim of subordinating all human endeavour to the logic of private profit.

While the processes of capital accumulation and concentration have long been with us, in recent times they have been dramatically accelerated as a result of a number of technological upheavals. Thanks to the transformation of data storage, processing and transmission techniques – computing, robotics, telecommunications – for the first time in the history of human civilisation it is possible to pursue planetary strategies in real time. In other words, it is possible from a given location to track and evaluate continuously the application of decisions anywhere else on the planet – and to adapt the content, location, operating conditions and outputs of any type of activity accordingly.

The effect of this technological revolution has been amplified by two other upheavals, of a political nature.

The first is the challenge by multinational companies – in the name of ‘freedom’ – to the sovereignty of governments and of their regulatory role. This is especially the case in the fields of the economy (currency, exchange, customs, interest rates, capital flows, monetary policy, taxation and fiscal policy, the public sector) and social policy (social programmes and labour laws, from the minimum wage to family benefits, and also trade union rights, pension plans, healthcare and education). This challenge has been legitimised by a particularly aggressive brand of liberal ideology, and backed by the full weight of

those that hold the reins of economic and cultural power. No effort is spared to promote the idea that private initiative is superior to public intervention, contrasting the efficiency and profitability of the former to the incompetence and wastefulness of the latter. Or the idea that humans naturally prefer private initiative over collective solidarity. Or the need to limit the state and government to the sole task of upholding law and order, social control and the defence of personal safety and private property. While this ideological campaign never tires of insisting that a free country is one in which there is freedom to do business, it remains curiously silent about the permanent collusion between the state apparatus and big business lobbies. It has, however, led to the implementation of policies of systematic deregulation that seek to fulfil two wide-ranging objectives.

In the first place, there is the objective of progressively establishing – sector by sector – a global space, or rather a world market, in which the only law is that laid down by multinationals to regulate the competition between them, a kind of chivalrous code for economic warfare. The task of drawing up and overseeing such a code, for example, has been devolved to the World Trade Organisation (WTO) – a gargantuan organisation that renders null and void the legitimacy of national states and governments.

The second objective is that of providing the best possible opportunity for those with the requisite astronomical wealth – that is to say, the multinational corporations – to take full advantage of the potential created by the new technologies. This is especially so in the financial sector – where the split-second transmission of capital and the mushrooming of exchanges, brokerage houses, financial products and speculative instruments have created a massive financial bubble out of all proportion to economic realities. Between \$1,200 and 1,500 billion are traded each day on the markets, the equivalent of one week of US GNP and 60 times the funds needed to settle actual international transactions in goods and services. This bubble could burst at any time and do irreparable damage, as has already been the case in Mexico and, more recently, in Southeast Asia. This financial bubble is the scene of the hottest investments and the most risky speculative operations; it is also the destination of choice for a significant proportion of the savings deposited in mutual and pension funds, and for the liquid assets of banks and companies.

The second political upheaval was the fall of the Berlin Wall in December 1989, an event symbolic of the collapse through implosion

of the bloc of socialist countries led by the Soviet Union. It was also symbolic of the disappearance of an economic and political system that put itself forward as the historic alternative to an increasingly unpopular capitalism. The socialist sphere of influence put up no resistance and displayed a kind of greed-induced naïveté; it was quickly conquered by the Western free market democracy model. This has not been the case for a handful of countries in the process of rapid transformation (such as Vietnam) or reduced to decrepit museums of a long-gone era (such as North Korea). Nor has it been the case of China, which intends to retain its political autonomy behind a wall of market socialism in which there is a great deal more market than there is socialism. The triumph of capitalism resulting from the disintegration of its arch-rival put an end to the East–West conflict, which had overdetermined international relations and the fate of peoples and nations for some 50 years. This triumph also put an end to the ‘Third World’, a term used to describe the often risky attempt by countries of the South as a whole to use the superpower conflict as a means to protect their economic and political independence. Above all else, this capitalist triumph over the Socialist Bloc has confirmed the historic defeat of the working classes and of the world proletariat. Henceforth, they will be condemned to limitless exploitation by a brutal and arrogant capitalism that, at long last, has been delivered from its age-old fear of world revolution.

This is the state of affairs as we embark upon an era in which the world’s new masters seek to establish a universal totalitarianism. Indeed, this is the only possible way for the handful of all-powerful economic warlords, who will soon own most of the planet, to perpetuate their domination over many billions of victims. The progressive establishment of this new order is being carried out in three main areas.

In the first place, there is the near-monopoly of the ideology of the ruling classes and of the neo-liberal discourse that legitimises their rule. Be it the printed press, radio and TV, publishing, academic institutions, think-tanks, or talks and seminars, there is very little in the field of the production and dissemination of mainstream ideas that is not directly or indirectly controlled by those in positions of wealth and power. The scope for manipulation provided by the mass media, their potential for ‘manufacturing consent’ and adapting their message to each audience, gives them unlimited possibilities for subjecting ever greater sectors of the population to their influence,

especially those most likely to become their victims. Fewer and fewer people have the wherewithal to extricate themselves from the dominant discourse. An overwhelming majority of intellectuals has been won to the new dominant ideology. Before, the intelligentsia were mobilised in opposition to the Establishment; now they have become its well-paid guard dogs. A veritable caste of arrogant and cynical intellectuals has emerged to defend the liberal faith, to declare the ‘end of history’, to hunt down and burn at the stake all those who dare contest the new doctrine. They monopolise the written and spoken word, recite the free market mantra, and pull economic ‘miracles’ out of thin air. These new theologians and dedicated scientists of the liberal faith do not hesitate to falsify history to erase anything that might contradict their regurgitated ‘truths’, nor do they baulk at manipulating statistics to give their pontificating a scientific gloss. In this, they have continued a proud tradition of totalitarian practices that began with the nationalist bourgeoisies and was perpetuated by fascist and socialist regimes. From a very young age, children are enrolled in the economic war, put forward as the unavoidable choice between life and death – both at school and in their sporting activities, where each is pitted against all and where victors and the powerful are praised and losers and the weak are contemptuously dismissed. For all this, however, no attempt is made to pinpoint the exact purpose of this indefinite and perpetual war of the kind described by George Orwell in *1984*. The war’s objectives, one’s allies and one’s conquests are ephemeral, in a constant state of flux.

Secondly, there is the attempt to submit the whole of human activity to the market order and the rule of profit. No sphere can escape this process, neither the protection of privacy, nor the right to breathe unpolluted air, nor the use of human genes. Everything can become a commodity, including spirituality, and enter the circuits of capital in order to be made profitable. The goal is that of granting capital totalitarian control over human and biological life and development. This shameful pillage of humanity’s collective inheritance has necessarily been accompanied by wide-ranging and growing criminalisation. While the old order has been destroyed and the rules governing relations between states and between states and multinationals are no longer effective, the resulting vacuum has not been filled by a new set of rules and corresponding sanctions for the new order. Brutal competition between the various economic warlords has, instead, been greased by generalised corruption. Not a

single country, not a single market, remains untouched. Not a single oil contract, public works project or arms deal, not a single significant market study or supply of goods or services, nothing takes place without payment of commission along a complex and variable set of guidelines in which all concerned parties become enmeshed. A chain of offshore tax havens encircles the globe, in close proximity to the major North American, European and Asian powers. Their banks provide the logistical backup and launder misappropriated sums totalling hundreds of billions of dollars. The same network serves to finance the underground economy, in particular drug trafficking. The banking sector is directly involved and makes a handsome profit through this permanent symbiosis between organised crime and the business world – whose natural affinities are legion.

Politics is the third area in which the new order is asserting itself. The obligatory political model has become that of market democracy, in which the legitimacy of government obtained through universal suffrage is subordinate to the sovereignty of markets, always at the ready to punish elected governments. As spaces for the peaceful resolution of social conflicts, political institutions have been reduced to shells of their former selves. They are mere window dressing, keeping up the democratic illusion in governments that are less and less so. Behind this façade of virtual democracy, ever more sophisticated techniques of surveillance and social control are developed and tumble into the hands of those holding the reins of capitalist power. Unbeknownst to most citizens, networks of computerised files, accessible to all for a price, encircle their personal and professional lives. There has been a multiplication and growing specialisation of public and private police services of all kinds. Cameras monitor public and private venues; computers permanently track people's activities and movements; specialised personnel (social workers, police) monitor and control neighbourhood life, communities and age groups considered to be dangerous or at risk. One day soon they will be electronically (genetically?) tagged and tracked, as is already the case in the world of prisons and crime prevention. Wherever social control seems to be a waste of effort and too costly, vast rural and urban zones and their populations are abandoned to the barbarism of those patchwork and disparate zones of the planet where even the heartless standards of 'globalisation' do not hold sway.

There is, however, nothing inevitable about this process of globalisation and the establishment of a totalitarian universe. The

destruction and hair-raising increase in social inequality that result from this process have provoked a large number of pockets of resistance scattered across the globe. Nowhere is it written that the peoples of the planet are somehow predestined to a new form of slavery. Through the course of human history, the aspiration of peoples to freedom and justice has never failed. Of course, no resistance will have long-lasting effects without an awareness of the ways the capitalist system operates in the era of globalisation and a sound understanding of its sophisticated techniques of domination.

Eric Toussaint has done a commendable job of contributing to the development of just such an awareness and understanding. He has helped us understand the question of debt, one of the main ways in which the peoples of the world are exploited by those who hold the reins of capitalist power. With the pedagogic approach of someone unflinchingly dedicated to overcoming this exploitation, he places the problem in its proper historical and geopolitical context. In so doing, he has fulfilled his objective of ‘contributing to the emancipation of the oppressed, wheresoever on the planet they may be’.

Christian de Brie

Editorial staff member at *Le Monde diplomatique*

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# Preface

When this book is released in English by Pluto Press in the spring of 1999, it will have already appeared in six other languages: French, Dutch, Spanish, German, Turkish and Greek. For a book that does not hide its hostility to the neo-liberal project, this in itself is a sign of renewed interest in global alternatives to mainstream thinking. Meetings have been organised to launch the book in a number of countries in Latin America, Africa and Europe. The meetings have provided an opportunity to test the validity of the book's main arguments. The results have been encouraging. As a result of the exchange organised around the proposals advanced in chapter 17, these proposals will be reworked in line with the thoughtful criticisms and additions I have received.

A number of significant events have taken place since the book was completed in May 1998. They provide the raw material necessary for fine-tuning the book's main theses.

## A GLOBAL AND SYSTEMIC CRISIS

In a number of key countries around the world, we have seen either outright drops in production and consumption or significant drops in their rate of growth.

The term 'systemic crisis' is fitting in so far as the economic strategy of a number of big states, large private financial institutions and industrial multinationals has been unsettled – due to the growing number of sources of imbalance and uncertainty in the world economic situation.

From the very start, the capitalist system has gone through a large number of generalised crises. On occasion, its very survival was in

doubt; but it has always managed to weather the storm. However, the human cost of these crises – and of the ways in which the capitalist system has emerged from them – is incalculable.

Capitalism may once again weather the storm. It is by no means sure that the oppressed will be up to the task of finding a non-capitalist solution to the crisis. Although victory is far from guaranteed, it is imperative that the oppressed reduce the human cost of the crisis and pursue a strategy of collective emancipation that offers real hope for all humankind.

## A WORLDWIDE FALL IN INCOME

Recent studies carried out by economists in government and UN circles, have confirmed just how far buying power has dropped in various parts of the world. The Clinton administration's former Secretary of State for Labor, Robert Reich, for example, has said: 'Workers have less money to spend on goods and services [...] The crisis is upon us'. He adds: 'The sluggishness of American income levels is a highly sensitive matter, given the role played by household spending in overall economic performance. [Household debt] accounted for 60 per cent of available income at the beginning of the 1970s; it is now more than 90 per cent [...] We have hit the ceiling' (Robert Reich, 'Guerre à la spirale de la déflation', *Le Monde*, 21 November 1998).

The 1998 report of the United Nations Development Programme (UNDP) gives some idea of the levels of household debt. In response to the drop in real income, households have clearly opted to finance a greater and greater share of their spending with debt. 'Between 1983 and 1995, as a share of available income, debt has risen from 74 to 101 per cent in the USA; from 85 to 113 per cent in Japan; from 58 to 70 per cent in France.' In absolute terms, US household debt was 5.5 trillion (5,500 billion) dollars in 1997.

This phenomenon can also be found in the most 'advanced' countries of the Third World. For example, in Brazil in 1996, fully two thirds of all families earning less than 300 dollars per month were in debt – that is, one million of the 1.5 million families in this category. According to the UNDP, bad cheques are a common method for financing consumer spending in Brazil. Between 1994 and 1996, the number of bad cheques rose six fold.

Robert Reich is quite right when he says that a ceiling has been reached. A recession in the North and an increase in interest rates in the South could lead to a huge drop in consumer spending in the North and across-the-board bankruptcy of households in countries of the periphery – in line with what we saw in the 1994-1995 Mexican crisis, and with what we have seen in the Southeast Asian crisis of 1997-1998 and the Russian crisis of 1998.

Three examples illustrate this fall in income for the majority of the world's population. First, the UNDP notes that in Africa, 'Consumer spending has on average dropped 20 per cent over the last 25 years'. Second, the UNDP notes that in Indonesia poverty could double as a result of the 1997 crisis. According to the World Bank, even before the crisis there were 60 million poor in Indonesia out of a total population of 203 million. Third, according to Robert Reich, real incomes continue to fall in much of Latin America. According to a World Bank report released at the end of 1998 (Agence France Presse, 3 December 1998), 21 countries experiences a fall in per capita income in 1997. The same report estimates that in 1998, some 36 countries – including Brazil, Russia and Indonesia – will register a drop in per capita income.

According to a 26 November 1998 press release issued by the Russian undersecretary of the economy, unemployment was expected to rise by 71 per cent between the end of 1998 and the beginning of 2001 – from 8.4 million to 14.4 million.

## STRAIGHT TALK ON THE CRISIS FROM CAMDESSUS AND CLINTON

Up until early 1998, International Monetary Fund (IMF) director Michel Camdessus had played down the scale of the Mexican and Asian crises. By the time of the October 1998 joint World Bank-IMF summit, however, he had come around to saying that the crisis was indeed systemic. At that same gathering, Bill Clinton declared that the crisis was the most serious one the world had experienced in 50 years.

## ESTABLISHMENT ECONOMISTS CRITICISE POLICIES DICTATED BY THE IMF, THE WORLD BANK AND THE G7

The severity of the crisis in a large part of the world economy has led a number of Establishment economists to subject IMF and G7-

supervised policies to harsh criticism. Jeffrey Sachs was a leading exponent of shock-therapy policies in Latin America in the mid-1980s – the most brutal examples of which could be found in Bolivia – and in Eastern Europe at the beginning of the 1990s. By 1997, however, he was pillorying IMF and US-inspired policies in Southeast Asia. Unfortunately, this didn't stop him from overseeing the implementation in Ecuador of a ruthless austerity package in late 1998.

In the mid-1990s, Paul Krugman argued that increased free trade and global commerce would pave the way for growth in all those countries that joined in the globalisation process. As the crisis deepened and began to affect Brazil in 1998, Krugman suggested that the Brazilian president put in place coercive measures, for at least six months, to regulate capital flows. Robert Reich wondered aloud why the Clinton administration and other world leaders continued to defend tight-money and austerity policies at a time when such policies created a deflationary spiral. For one thing, he said Third World countries should not be forced to make huge cuts in public spending and to increase interest rates before they are eligible for loans (*Le Monde*, 21 November 1998).

In the June 1998 edition of *Transition*, in a broadside against the Washington consensus, World Bank vice-president and chief economist Joseph Stiglitz denounces the IMF's shortsightedness. He argues that although there is indeed proof that high inflation can be dangerous, there is no such proof that very low inflation rates necessarily favoured growth. Yet, for the moment, the IMF (and the World Bank, too, lest we forget) continue to promote the low-inflation dogma, even if this means destroying any possibility of economic recovery.

Nor have editorial writers at the *Financial Times* held back in their criticisms of the IMF: 'The IMF's way of dealing with crises must also change. Its standard remedy was not appropriate for Asia, where the problem was mainly private-sector debt. Too much IMF money was used to bail out foreign creditors' ('How to change the world', *Financial Times*, 2 October 1998).

Making a major break with tradition, Stiglitz has even 'dared' to criticise the role of the sacrosanct markets in Latin America: 'The paradox is that the panicking market has, for reasons totally unrelated to the region, demanded that Latin American investments deliver unreasonably high interest and dividends to cover the perceived risks. By driving interest rates up and stock prices down, the

markets risk doing severe damage to the Latin American economies' ('A Financial Taint South America Doesn't Deserve', *International Herald Tribune*, 19–20 September 1998).

Of course, the authors of these remarks have not exactly been won over to the cause of the oppressed. That being said, they do indeed reflect the unease Establishment economists feel over the patent inability of governments, financial markets and the international financial institutions to get the global economy back on a path towards growth.

## A FLURRY OF CORPORATE MERGERS

The tendency towards concentration in the corporate sector has been given a huge boost as we approach the twenty-first century. There were more mega-mergers in 1998 than in any previous year – in banking, insurance, oil, chemicals, pharmaceuticals, automobiles and the media. This merger frenzy has amplified the power of a handful of companies over whole sectors of the global economy. The mergers have gone hand in hand with a renewed offensive on the employment front; they invariably mean dismissals and downsizing through 'voluntary' retirement.

At the same time, this striking increase in the concentration of capital has not necessarily meant greater stability for the companies that come out on top. Takeovers and mergers have proceeded with such reckless abandon that the new mega-firms are not likely to be any more resilient than other companies when confronted with abrupt shifts in the world economy.

## WEALTH CONCENTRATED IN FEWER AND FEWER HANDS

In its 1997 and 1998 reports, the UNDP keeps a tab on how many of the world's wealthiest individuals one would have to assemble to come up with a total fortune of one trillion (one thousand billion) dollars – keeping in mind that this sum is equal to the annual income of nearly 50 per cent of the world population.

Using data from *Forbes* magazine's annual listing of the world's wealthiest individuals, the UNDP calculates that in 1996 it would have taken 348 of the world's mega-rich to put together one trillion dollars. By 1997, however, this figure was brought down to 225. At this rate, in a few years the richest 150 people might well own as

much wealth as the total annual income of three billion people! The gap between holders of capital, on the one hand, and the majority of the population, on the other, is growing wider and wider.

The UNDP also makes a radical critique of Thatcherism without mentioning the Iron Lady by name: 'During the 1980s, the gap [between rich and poor] in the United Kingdom widened by a degree never before seen in an industrialised country.'

## **SO MUCH FOR PRIVATE-SECTOR EFFICIENCY**

Neo-liberalism has been the dominant creed for some 20 years. One of the major arguments made by neo-liberal opinion-makers has been that the private sector is much more efficient than government in economic matters. Yet 1997 and 1998 have been replete with examples of private-sector inefficiency. The 1998 reports of the World Bank and the Bank for International Settlements (BIS) concede that it was the private companies of Southeast Asia that had amassed unsustainable debt levels, not government. The same reports say that the previous Third World debt crisis (from 1982 onwards) had resulted from excess public-sector debt. In other words, once the private sector was given free access to international financial markets, it (alongside the financial institutions of the North that provided the loans) proved to be just as short-sighted and reckless as government.

In the most industrialised countries, the 'hedge funds' that boosted their financial fortunes over the last 15 years have also been reeling of late. The best known example is that of Long Term Capital Management (LTCM), a misnamed company if ever there was one. By late September 1998, LTCM was on the verge of bankruptcy. It had 4.8 billion dollars in real assets, 200 billion dollars in leveraged funds in its portfolio, and a notional value of 1.25 trillion (1,250 billion) dollars in derivatives. It is worth noting that LTCM had been advised all along by the two recipients of the 1997 Nobel Prize in Economics, Myron Scholes and Robert Merton – two stalwarts of the 'science of financial risk', rewarded for their work on derivatives. As its bankruptcy loomed, even big international banks with conservative reputations admitted to having made imprudently large loans to LTCM. Had LTCM not been bailed out through the massive intervention of a number of big banks such as the Union des Banques Suisses (the biggest bank in the world before Deutsche Bank and Bankers

Trust merged in late 1998), Deutsche Bank, Bankers Trust, Chase Bank, Barclays, Merrill Lynch, Société Générale, Crédit Agricole and Paribas, all these banks would have found themselves in a highly vulnerable position. Indeed, beyond reckless loans to LTCM, they have all increasingly become involved in speculative operations. In the second half of 1998, many of these big banks registered significant losses for the first time in years.

Finally, there is a long list of formerly state-owned companies that have in no way performed any better in private hands. Huge private industrial concerns have posted losses hand over fist as a result of strategic errors, particularly in the information technology sector.

Further proof of private-sector inefficiency have been the monumental errors made by such private rating agencies as Moody's and Standard and Poors. They had nothing but praise for countries now wallowing in crisis.

## GOVERNMENT TO THE RESCUE

For the last 20 years, governments have said they would not come to the rescue of struggling companies and have privatised major state-owned concerns. Now, however, they have been rushing to bail out private-sector companies that threaten to go under. Funds for these rescue packages come from state coffers fed largely by taxes on working people and their families.

Here, too, the past two years have been telling. On 23 September 1998, the head of the US Federal Reserve convened a meeting of the world's top international bankers to put together a rescue package for LTCM ('Fed attacked over LTCM bail-out', *Financial Times*, 2 October 1998; *Le Monde diplomatique*, November 1998). Around the same time, the Japanese government was adopting a rescue plan for the country's private financial system, involving nationalisation of a part of private-sector debt – to the tune of 500 billion dollars to be shouldered by the state.

Thanks to IMF and World Bank intervention in the Southeast Asian crisis in 1997, some 100 billion dollars were pooled together to enable the region's private financial institutions to continue paying off their debts to private international lenders. Most of this money came from the state coffers of IMF and World Bank member-countries.

The October 1998 IMF package to keep Brazil afloat was also financed by public funds. The plan enabled Brazil to go on servicing its external and internal debts to the international and domestic private financial system. Private financial institutions categorically refused to contribute to this so-called rescue package. Instead, the IMF ensured that their debts would be paid off, and they cynically decided to hang back and refuse to make new loans to Brazil. They adopted exactly the same stance in the face of the 1982 crisis. The time has surely come to put an end to such publicly-funded bailout packages for private finance.

## **SO MUCH FOR THE ADVANTAGES OF FINANCIAL DEREGULATION**

Right up until 1997, the IMF, the World Bank, the BIS and (more reluctantly) the United Nations Conference on Trade and Development (UNCTAD) sang the praises of financial liberalisation and deregulation. This, they declared, was the way forward for all countries seeking economic growth. Southeast Asia's high growth rates until 1997 were cited as living proof of the success to be had from pursuing such an approach. Once the region was plunged into crisis, the IMF, the World Bank and the BIS declared that the crisis was primarily due to the weakness of the region's private financial sector. This was the best argument they could find to obscure their own responsibility for what has happened.

Of course, the argument is wrong, and UNCTAD has been honest enough to say so. In the press release introducing its 1998 annual Report on Trade and Development, UNCTAD notes a weakening of Asia's private financial sector. This weakening, it says, is the result of the combination of three factors: first, the liberalisation of capital flows; second, high interest rates set by private financial institutions to attract foreign capital and discourage the flight of domestic capital; third, exchange rates fixing national currencies to the dollar.

Together, these factors produced a massive inflow of capital which thoroughly destabilised domestic financial markets. In other words: yes, the financial system was weak; but, no, this weakness was not a vestige of the pre-deregulation period, as the IMF, the World Bank and BIS would have it. On the contrary, it was the policy of deregulation that weakened financial markets. Simply put, the huge inflow of short-term capital was not matched by a corresponding increase

in productive activities – which require long-term investments. As a result, most short-term capital was invested in speculative activities, in strict accordance with criteria of capitalist profit.

Southeast Asia's financial system was no weaker than those of other so-called emerging markets. Instead, it was undermined by deregulation measures which gave free rein to supposedly high-profit short-term activities such as the quick buying and selling of (often vacant) real estate. According to Walden Bello, 50 per cent of Thai growth in 1996 stemmed from real-estate speculation. Although the IMF and the World Bank were supposed to be monitoring the economic reform process in these countries, their unflinching defense of neo-liberal precepts blinded them to the real problems at hand.

### YET ANOTHER DEBT CRISIS

All but a handful of the countries of the periphery – which account for 85 per cent of the world's population – have now to endure yet another debt crisis. The immediate causes are: an increase in interest rates (which are actually falling in the countries of the North); a fall in all types of foreign capital inflows; and a huge drop in export earnings (caused by the fall in the prices of most of the South and the East's exports).

There has been a swift increase in the total debt owed by Asia, Eastern Europe (especially Russia) and Latin America. Short-term debt has increased, while new loans are harder to obtain and export earnings continue to fall. In relative terms, Africa has not been as hard hit by changes in the world situation: loans and investment by the North's private financial institutions have been so dismally low since 1980, things can hardly get any worse (except for South Africa).

With the 1997 Southeast Asian crisis spreading into Eastern Europe and Latin America, private financial institutions have been increasingly reluctant to make new loans to countries in the periphery (whether in the Third World or the former socialist bloc). Those countries which continue to have access to international financial markets – and continue to make government-bond issues in London and New York – have had to hike the guaranteed return paid on their issues in order to find buyers.

Argentina's October 1998 bond issue on the North's financial markets, for example, offered a 15 per cent rate of return – 2.5 times the average rate of the North's government bond issues. Yet this has

not been enough to lure the North and the South's private lenders back from their preference for bonds from the North. As was the case in the early 1980s, when the last debt crisis hit, credit has become rare and dear for the periphery. Between 1993 and 1997, there was a steady increase in foreign direct investment (FDI) in Southeast Asia (including China) and the main economies of Latin America (drawn by the massive wave of privatisations). This tendency faltered in 1998 and could well do so again in 1999: FDI in Southeast Asia fell by more than 30 per cent between 1997 and 1998; and loans fell by 14 per cent between the first half of 1997 and the first half of 1998.

IMF-dictated measures in the countries of the periphery have led to recession, a loss of some of the key pillars of national sovereignty, and a calamitous fall in the standard of living. In some countries, these measures have merely worsened conditions that were already unbearable for much of the population.

While the incomes of domestic holders of capital in these countries continue to rise, there has been a disastrous fall in those of working-class households. This chasm is as wide or wider than at any time in the twentieth century.

During the months of September and October 1998, for example, holders of Brazil's internal debt were receiving nearly 50 per cent in annual interest payments, with inflation hovering below 3 per cent. Brazilian capitalists and multinational companies, especially those based in Brazil, could borrow dollars at 6 per cent interest on Wall Street and loan them to the Brazilian government at between 20 and 49.75 per cent! All the while, these same capitalists continued to siphon most of their capital out of the country, to shelter themselves from abrupt changes in the country's economic fortunes.

## **PROGRESSIVE AND RADICAL POLICIES ARE BOTH NECESSARY AND FEASIBLE**

Global public opinion began to shift in 1997 and 1998, in response to the failure of policies imposed by a combination of neo-liberal governments, domestic and foreign holders of capital and the multi-lateral financial institutions.

In the wake of the neo-liberal whirlwind, a large number of people in Southeast Asia, Russia, Brazil, Mexico, Venezuela, Argentina, Central America and Africa have seen a drop in their standard of living.

For the 400 million inhabitants of the former Asian ‘dragons’ and ‘tigers’, IMF has come to mean ‘T'M Fired’. Across the planet, including in Europe, a sizeable share of the population has begun to challenge neo-liberal policies. In some cases, this has taken on contradictory and confused forms. In most countries, the weakness of the radical Left and the slavish submission of the traditional Left to the dictates of the market (that is, of holders of capital) have created an opening for parties and movements that redirect the population’s consciousness and will to act against a series of scapegoats, be they foreigners or followers of a different faith.

Successful resistance to the ongoing neo-liberal offensive is no easy matter; but those engaged in struggle have a number of points in their favour, including partial victories. The October 1998 decision by the French government of Lionel Jospin to withdraw from negotiations on the Multilateral Accord on Investments (MAI) came about in response to a broad campaign of opposition organised by an array of movements, trade unions and parties in France, the USA, Canada, the Third World and across Europe. To be sure, multinational corporations and the US government will again attempt to push through the MAI’s objectives of total freedom for holders of capital. For the moment, though, they have suffered a major reversal. It is indeed possible to roll back such government and corporate initiatives through campaigns and mobilisation.

Another sign of the changing times was the UNCTAD statement of September 1998 in favour of the right of countries to declare a moratorium on foreign-debt payments. UNCTAD said: ‘A country which is attacked can decide to declare a moratorium on debt-servicing payments in order to dissuade “predators” and have some “breathing room” within which to set out a debt restructuring plan. Article VIII of the IMF’s Statutes could provide the necessary legal basis for declaring a moratorium on debt-servicing payments. The decision to declare such a moratorium can be taken unilaterally by a country in the face of an attack on its currency’ (UNCTAD press release, 28 August 1998).

Of course, UNCTAD is a small player in comparison to the G7, the IMF, the World Bank and the World Trade Organisation (WTO). But this forthright defiance of the so-called inalienable rights of money-lenders reveals that governments in the periphery are finding it increasingly difficult to justify their support for the neo-liberal globalisation project.

The UNDP's 1998 report calculates that a 4 per cent tax on the assets of the world's 225 wealthiest people would bring in 40 billion dollars. This is the modest sum that would have to be invested annually in 'social spending' worldwide over a period of ten years in order to provide: universal access to clean water (1.3 billion people went without such access in 1997); universal access to basic education (one billion people are illiterate); universal access to basic health care (17 million children die annually of easily curable diseases); universal access to basic nutrition (two billion people suffer from anaemia); universal access to proper sewage and sanitation facilities; and universal access by women to basic gynecological and obstetric care.

Meeting these ambitious targets would cost only 40 billion dollars annually worldwide over a period of ten years. The UNCTAD report compares this figure to some other types of spending which humankind could easily do without: in 1997, 17 billion dollars were spent on pet food in the USA and Europe; 50 billion dollars were spent on cigarettes in Europe; 105 billion dollars were spent on alcoholic drinks in Europe; 400 billion dollars were spent on drugs worldwide; there was 780 billion dollars in military spending worldwide; and one trillion (1,000 billion) dollars were spent on advertising.

1999 and 2000 are Jubilee years in the Judeo-Christian tradition which culturally dominates the select club of G7 countries. With yet another debt crisis upon us, Jubilee tradition demands that we energetically call for the complete and total cancellation of the debts of the countries of the periphery.

A host of other measures must be implemented urgently, such as: a tax on international financial transactions (as called for by the ATTAC coalition); an inquiry into the overseas holdings of wealthy citizens of the countries of the periphery, leading to the expropriation and restitution of these holdings to the peoples of the countries in question when they are the result of theft and embezzlement; bold measures to restrict capital flows; an across-the-board reduction in the working week with corresponding hiring and no loss of wages; land reform providing universal access to land for small farmers and peasants; measures favouring equality between men and women.

Though incomplete and insufficient, these measures are a necessary first step towards satisfying basic human needs.

Eric Toussaint  
6 December 1998

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# Introduction

A growing number of the planet's inhabitants have access to little more than the strict minimum necessary for survival. They are cut off from knowledge and excluded from social life, denying them the most basic form of human dignity. As a result, they lack self-confidence and self-respect, they have little confidence in and respect for others. It is very difficult to capture such things statistically, but it would be no exaggeration to say that one billion people live in such a state. A state that destroys all hope, a sub-human state. An unacceptable state of affairs.

I am haunted by the memory of the 'street children' of Cartagena de las Indias in Colombia. At the crack of dawn, dressed in their rags, having spent the night sleeping on the ground 'protected' only by a piece of cardboard, they wake to begin their search for glue to sniff. I encountered them in 1992, they were between the ages of seven and eleven. They had no right to food, to decent clothing, to a roof over their heads, to healthcare, to education, to affection.

These children, and thousands like them, had sunk to sniffing glue in order to quell the pangs of hunger that they felt day and night. What can the word 'break-fast' possibly mean to them? They have no breakfast, no lunch, no dinner.

When I offered them something to eat from a stand at the Cartagena docks, they could only swallow what they took with great difficulty. Their system was used to solvent fumes, not food. These fumes soothe and destroy them at the same time. What is their life expectancy? 20 years? 25 years? They are known as the *desechables* to many in Colombia. *Desechable* is what you call a product which can be thrown out after it has been used. These *desechables*, these 'disposable children', are murdered by the army and police forces of

Colombia, Brazil and the Philippines in order to 'clean up' their cities. According to the 1997 report of the UN Development Programme, there are 200,000 street children in Brazil. Hundreds of them have been murdered by the 'upholders of law and order' in recent years. The International Labour Office also calculates that some 250 million children between the ages of five and fourteen are obliged to work in order to survive (*Le Soir*, 13 November 1996 and 27 February 1997). A significant number of these children become bonded labourers to repay debt (Bonnet, in Schlemmer, 1996). In the countries of the North, networks for the sexual abuse of children are frequently uncovered. The bodies of these children are treated as goods to be disposed of after use (Tondeur, 1996).

No self-respecting human being can be unmoved by such injustice. We are moved to unite with others and do what we can, to put an end as quickly as possible to this intolerable state of affairs.

Barbarism now reigns over a significant part of human civilisation. This does not mean that those living in such conditions do not have the will to change their lot. They are not barbarians! Hundreds of millions of people struggle every day, have organised themselves into movements for a better future. This book is dedicated to them. Their creativity and their struggles have strengthened my belief in the possibility for emancipation.

Karl Marx declared long ago that the emancipation of the oppressed can be achieved only by the oppressed themselves. The fundamental objective must be that of contributing to this emancipation of the oppressed, wheresoever on the planet they may be.

## SOME COMMENTS ON THE WAY THE BOOK HAS BEEN ORGANISED

This introduction contains 45 theses, each of which provides a synthesis of a section of the book. For reasons of space, we have not included theses on the parts of the book devoted to neo-liberal ideology, alternatives and counter-initiatives. Readers are encouraged to read the theses, but if this seems an onerous task you can move on directly to Chapter 1 and return to the theses upon completing the book. You are also encouraged to consult the glossary whenever an expression or acronym creates the slightest doubt. The authors and works cited in the book, or consulted during its writing, can be found in the bibliography at the end of the book. In the body

of the text itself, whenever there is a quotation or one or more authors is referred to, we have noted in parentheses the name of the author, the year of publication of the work and, when appropriate, the page number. You will also find an annotated chronology at the end of the book on the relationship between the World Bank and IMF, on the one hand, and the Third World on the other.

All comments, suggestions and criticisms are welcome, to make the book easier to understand, to correct oversights and to rectify mistakes that escaped the author's attention.

## THE BOOK'S THESES

1. From the 1980s onwards, we have seen a worldwide process of massive impoverishment on a massive scale resulting from a series of deliberate policies collectively referred to as 'neoliberalism'. The book backs up this statement with a critical analysis of statistics provided by, among others, the United Nations Development Program (UNDP), the World Bank, the IMF and the OECD; and with observations made by the author, who has made several study trips through Third World countries, Eastern Europe, North America and Western Europe (Chapter 1).
2. Globalisation (see glossary) is part and parcel of the deregulation of capital markets implemented by the governments of the main economic powers and by the multilateral financial institutions that serve them (the World Bank, the IMF, the Bank of International Settlements; see glossary) (Chapter 1).
3. Globalisation has meant a growing financialisation (see glossary) of the economy in every country in the world, to such a degree that some writers speak of the 'tyranny' of financial markets that considerably reduces the margin for manoeuvre of government policy-makers. This does not mean, however, that we have reached the point of no return. Financial markets can be disciplined once again if governments decide to do so.
4. Globalisation is not a purely economic process. It has been dramatically accelerated by the policies consciously pursued by a growing number of governments in the wake of the Reagan and Thatcher experiences in the early 1980s. Successive governments have deliberately diminished the possibility of public intervention in the economy (Chapters 1 and 4).

5. What is needed is a clear change of tack, placing the satisfaction of human needs at the heart of government policy. To this end, restrictive measures must be taken against the holders of capital. The oppressed can become agents for revolutionary change. Globalisation can be avoided; those who insist it cannot should know that they can be removed from office (Chapters 17 and 18).
6. After almost 20 years of neo-liberal policies, economic growth has not reached the levels of the three decades that followed the Second World War. Development has not only slowed, the new neo-liberal framework means that inequalities have increased both within countries and between the countries of the centre and those of the periphery (Chapters 1–4).
7. The type of globalisation underway has meant a recentring of investments, production and trade towards the world's three main industrial, financial and trade poles: North America, Western Europe and Japan (Chapter 3).
8. The Third World and the former Eastern Bloc have been marginalised, except for a small number of countries (Chapter 3). Within these two regions of the world, accounting for 85 per cent of our total population, there has also been a growing marginalisation of a majority of the population, concentrated in the most dispossessed zones.
9. In the countries of the North, a growing minority have been excluded from productive activity. They survive thanks only to the mechanisms of collective solidarity (social security systems) that were the fruits of struggles by the oppressed through much of this century. Otherwise, they live off scraps and the underground economy (Chapter 1).
10. In its current form, globalisation has meant both an opening of borders for capital flows and a closing of the borders of industrialised countries to the populations of the Third World and former Eastern Bloc (Chapters 8 and 12).
11. Wealth is produced by human labour and nature. A growing proportion of the surplus of human labour is being channelled into the financial sphere by the holders of capital. They invest a decreasing share of this surplus in the productive sphere. This process cannot continue indefinitely. If a change in tack is not made under pressure from below, it could last for some time and be the source of repeated and increasingly damaging financial crashes (Chapters 3, 4 and 16).

12. Globalisation has been accompanied by a global offensive by Capital against the labour of workers and small producers (Chapter 1).
13. Globalisation has accelerated the process of centralisation of capital in the hands of a few hundred companies. The power of multinationals has grown and usually led to the emergence of oligopolies (see glossary) (Chapters 2 and 3). Nevertheless, care should be taken not to exaggerate this process. There is intense competition between multinationals, they are not able to establish global monopolies. One indication of the limits of globalisation is that multinationals have not broken ties with national states. As a general rule, they continue to rely on the backing of the state of their country of origin.
14. Unemployment in the North is not the result of massive transfers of production from the North to the South or to Eastern Europe (Chapter 3). Interesting in this regard are the unequivocal results of two comprehensive working papers published in 1997 by the highly respected National Bureau of Economic Research (NBER). The NBER based its findings on the study of a large sample of US multinationals and their subsidiaries, over a ten-year period from 1983 to 1992. In only a marginal number of cases have jobs from the headquarters of companies in industrialised countries been replaced by jobs in their Third World subsidiaries. At the same time, there is a lot of movement between the Third World subsidiaries themselves. The authors of the study note that 'the rise of investment in countries like Brazil poses a much smaller threat to employment at company headquarters in the USA than it does to employment in the subsidiaries of developing countries in Asia'. Further on, the meticulous econometricians at the NBER compare the different subsidiaries and conclude that 'the activities of subsidiaries in developing countries are complementary to, and do not substitute for, the activities of subsidiaries in the developed countries.' Therefore, even between subsidiaries, we come across the same phenomenon; workers are placed in a situation of competition with one another, but only when the subsidiaries are in countries where skill and productivity levels are comparable. Nike provides a concrete illustration of these academic findings. Before the Asian crisis, one of its main contractors in Indonesia awarded its workers a 10.7 per cent

increase in wages. A Nike spokesperson worried that Indonesia might be in the process of becoming 'too expensive for the market'. Nike takes a similar approach to Vietnam, where in 1997 it dismissed 447 of its 6,000 workers, who had had the audacity to struggle for a wage increase that would give them more than the monthly minimum wage of \$45 (*Le Monde*, 24 June 1997).

15. The crisis that has rocked Southeast Asia – specifically Thailand, Indonesia, the Philippines and Malaysia – from the summer of 1997 onwards, shows the limits of a 'development' model based on low wages, an open economy and export-oriented growth that puts the internal market on the back burner. This model goes hand in hand with a permanent tendency towards the deepening of the current account deficit. As in the case of the Mexican crisis in 1994, this problem is rooted in a basic imbalance. Imports grow more quickly than exports, due to a relationship of sustained dependence that leads such countries to import most of their industrial goods and most luxury items for the rich. Exports grow only in proportion to such a country's ability to maintain 'attractive' wage levels, in a context of competition from subsidiaries in other countries. Growth can be very strong, but it is built on a destabilising leap forward that presupposes an ongoing distortion of the country's socio-economic structure. The total liberalisation of capital inflows and outflows puts these countries at the mercy of possible massive and sudden outflows of capital in search of quick profits or a safe haven. The crisis resulting from this capital outflow increases government and domestic companies' short-term need for liquidity. Debt rises very quickly (Chapter 16).
16. Beginning in the sixteenth century, the development of international credit has followed close on the heels of the extension of European capitalism across the planet (Chapter 6).
17. At the end of the nineteenth century and in the early part of the twentieth century, the use of foreign debt as a weapon for domination and destruction played a key role in the policies of the main capitalist powers towards second-rank powers (China and the Ottoman Empire) that could have become capitalist powers themselves (Chapter 6).
18. During the 1930s external debt crisis in Latin America, 14 countries in the region unilaterally decided to suspend debt

payments. This helped pave the way for economic success, with 14 governments of different political hues reacting simultaneously and implementing policies focused more than ever on domestic markets. During the 1980s debt crisis, the United States and the other main capitalist powers imposed country-by-country negotiations and came out on top (Chapters 6 and 7).

19. The Third World and Eastern Bloc debt crisis is closely intertwined with the first stages of the deregulation of financial markets in the second half of the 1960s (Chapters 5 and 7).
20. The Third World grew rapidly from the second half of the 1960s until the end of the 1970s. Private banks, the World Bank and governments in the North (especially through export credits) pursued an active policy of low-interest loans, or even negative-interest loans. For countries of the South at the time, borrowing was therefore a very interesting proposition, especially as export earnings were on the rise thanks to an increase in the volume of exports to the North. Governments in the North encouraged such borrowing in order to find outlets for their goods. For their part, private banks held a considerable volume of capital on deposit and were on the lookout for investments, even high-risk ones (Chapters 5, 7, 9, 10, 14 and 16).
21. The Third World debt crisis, which began in 1982, was due to the sudden increase in interest rates decided by the US Federal Reserve at the end of 1979, the drop in export earnings (creating a trade deficit for the South) and the suspension of bank loans (Chapter 7).
22. The governments of the North and South, the multilateral financial institutions (IMF, World Bank) and the big private banks managed the Third World debt crisis in such a way as to force Third World and Eastern European countries – which had acquired real industrial and even financial power – into a cycle of dependence. The Southeast Asian crisis can be expected to produce similar results (Chapter 16). As for the least developed countries of the Third World, which had not gone through a cumulative experience of industrialisation, their subordination to the main industrialised countries has merely been deepened (Chapters 10, 11, 14, 15 and 16).
23. The international lenders, the IMF, the World Bank, the Paris Club (which brings together the North's governments in their capacity as lenders; see glossary) and the London Club (which

- brings together the North's private banks; see glossary) dictate their conditions to debtor countries (Chapters 10, 11, 14, 15 and 16).
24. Structural adjustment plans are an instrument for reining in the countries of the Third World (Chapters 10, 11, 14, 15 and 16) and Eastern Europe. The logic of these plans has been exported to the countries of the North, whose populations have also been subjected to austerity plans (Chapter 13).
  25. The effects of these plans have in general been disastrous. In some cases they have intensified terrible social crises, leading to a spiral of so-called ethnic and so-called religious conflicts, and even to the break-up of entire states. The list is already very long, the number of deaths exponential: Somalia, former-Yugoslavia, Algeria, Rwanda, to name a few. While structural adjustment programmes have not been the central factor in these crises, they have been powerful catalysts (Chapters 11 and 15).
  26. The repayment of foreign and domestic debt has been a tremendous mechanism for transferring the wealth created (or, rather, a part of this wealth: the surplus) by the workers and small producers of Third World countries and the former Eastern Bloc, to domestic holders of capital (the South and Eastern Europe's capitalists) and to the North's capitalists (Chapter 8). This is not a mere draining of the periphery's resources by the centre. Rather, a class analysis reveals that this transfer of wealth is part of the aforementioned generalised offensive of capital against labour. This offensive aims specifically to re-establish the capitalists' rate of profit – known as 'company performance' – in the long term.
  27. Debt is one mechanism among others for subordinating the peoples and governments of the periphery to the centre, symbolised by the Group of Seven (G7) most industrialised nations. Other such mechanisms include: unequal trade and the deterioration of the terms of trade for the countries of the South; the control of world trade by multinationals and the industrialised capitalist countries; military domination by the Northern powers; capital flight from the South to the North; the repatriation of profits stemming from the operations of multinationals from the North in the South; the 'brain drain' from South to North; protectionist barriers put up by the North against goods

- from the South; restrictions on the travel and migration of citizens from the South to the countries of the North (Chapter 8).
- 28. Repayment of the public debt by the governments of industrialised countries is analogous to Third World repayment of foreign debt. The terms are different, however, since this is largely debt contracted within the same country. Public debt instruments are mainly bought by holders of capital. This debt is paid back by states for whom such payments eat up an increasing part of tax revenues, which largely come from working people. This is another mechanism for transferring surplus wealth (see glossary) created by workers towards holders of capital (Chapter 8).
  - 29. Internal public debt in the South has grown enormously, especially in Latin America and Asia. Repayment is another mechanism for transferring a part of surplus wealth to holders of capital (Chapter 14).
  - 30. The World Bank and the IMF are controlled by the main powers of the capitalist centre. These institutions intervene daily in the political life of debtor countries to decide the main orientation of policies pursued by governments of the South and of Eastern Europe (Chapters 9, 11, 12, 14, 15 and 16).
  - 31. These institutions have a very powerful weapon for blackmail. If the governments in question do not make payments on their debts in line with the conditions dictated by the IMF, the World Bank and the Paris and London Clubs, their line of credit will be cut off. In such cases, there is a serious threat that all sources of foreign financing will be closed off (Chapters 11, 12 and 16).
  - 32. Much of the debt in question is illegitimate (Chapter 15).
  - 33. The peoples of the Third World amply repaid contracted debt before the rise in interest rates at the beginning of the 1980s, for which they are in no way responsible (Chapters 7, 8, 14 and 15).
  - 34. Yet the Third World is four times more indebted than it was at the time of the 1982 crisis, for it had to borrow anew to pay the higher interest rates (Chapter 8).
  - 35. Real income from Third World exports has dropped even though total volume has actually increased. The terms of trade (see glossary) between the South and North have deteriorated for the South (Chapters 7, 8, 12, 14 and 16).
  - 36. The biggest Third World debtors in the 1980s were Mexico, Brazil and Argentina. The very character of their foreign debt

was transformed to the benefit of the North's private banks, with the complicity of the governments in question. This was done through the joint intervention of US government officials (the Baker and Brady Plans), the cartel of private lender banks (the London Club), the IMF and the World Bank. The banks significantly reduced the burden of these debts in their portfolios. They protected themselves from bad debts by taking advantage of various tax exemptions and cuts granted to them by most governments of the North for the bad part of their portfolios. Since the beginning of the 1990s, the North's private banks only make short-term and high-interest loans, when they loan at all. Indeed, much like other players in the financial markets (pension funds, mutual funds, insurance companies, and so on), they primarily purchase bonds and other paper issued by some of the biggest debtor countries (Mexico, Brazil, Argentina and Turkey) and guaranteed by the governments in question. This phenomenon has been labelled the 'securitisation' of debt (see glossary). As a result, private financial players can part with debt paper as soon as risk appears, or when they feel their investment can yield more in another sector or in another country altogether (Chapters 5, 14 and 16). In the wake of the East and Southeast Asian crisis, the big private financiers and the IMF have obliged the governments in question to nationalise a significant proportion of the debts of their private companies and to issue government bonds on international financial markets. They have been forced to do this in order to ensure the repayment of emergency loans made by the major credit institutions under the auspices of the IMF. Broadly speaking, the Asian crisis is being handled in the same way as the 1980s Latin American debt crisis. The process of 'securitisation' has been given a major boost as a result. The adjustment now being imposed on the peoples and economies of East and Southeast Asia is just as brutal as what was done in Latin America, if not more so. If you look specifically at the pace at which privatisation is meant to take place, at the huge leap in unemployment and at the partial loss of national sovereignty, it becomes clear that the 'adjustment' is taking place much more swiftly than at the beginning of the 1980s in Latin America.

37. The net result is that debtor countries are much more vulnerable than before; their debt can be easily sold off. Overnight, these

countries might find they are unable to raise the huge sums required for repaying their debts and ensuring their balance of payments. The Mexican crisis of December 1994 and the East and Southeast Asian crises of 1997 and 1998 are proof of this.

38. The growing instability of the global financial system is heightened by the ease with which market players can acquire debt paper and currencies and dispose of them when they feel the need. The 1997 financial crisis in Southeast Asia subjected the four 'dragon' economies (Thailand, Malaysia, Philippines and Indonesia) to attacks from market players that speculated against their currencies, creating a domino effect that subsequently hit Hong Kong, South Korea and Brazil. This is further proof of the systemic instability of the current order. As during the 1994 Mexican crisis, IMF intervention was required to limit the damage. But the IMF is not Santa Claus. It provides loans – with a risk premium on its interest rates – that increase the burden of foreign debt in the targeted countries. The IMF clearly comes out on top in such operations.
39. There has been an overall increase of financial flows into a few Third World countries since the beginning of the 1990s. Into China, whose foreign debt rose by 123.2 per cent between 1990 and 1995. Into the four 'dragons' of Southeast Asia, whose debt rose by 80 per cent between 1990 and 1995. Into the four 'tigers' (South Korea, Taiwan, Hong Kong and Singapore), whose debt rose by 114.6 per cent between 1990 and 1995. Finally, into Mexico and Brazil. In all these countries, a new debt cycle has begun, whose features have already been described. Until the summer of 1997, the four 'dragons' and South Korea had no problems meeting their foreign debt obligations. The crisis that hit during the second half of the year plunged them into an entirely new situation. Debt servicing has become very onerous, indeed almost unbearable. China might experience similar difficulties in the near future (Chapters 5, 14 and 16).
40. There has also been a change in the form of debt in the highly indebted poorest countries (HIPC s). Private banks are no longer interested in such countries. The main lenders are governments of the North (bilateral debt) and international financial institutions (the IMF, the World Bank and its regional associates: the African Development Bank, the Asian Development Bank and the Inter-American Bank for Development). Most debt payments

from the poorest and most indebted countries go to the international financial institutions, which take in more than they lend. Such countries devote an increasing share of the Public Development Aid they receive to paying off their multilateral debt with the IMF and World Bank. To add insult to injury, a portion of the loans made by the International Development Association (IDA, one of the divisions of the World Bank; see glossary) is immediately used to pay back the International Bank for Reconstruction and Development (IBRD, the main division of the World Bank; see glossary) and the IMF. The money from one till at the World Bank – ostensibly earmarked to improve the lot of the people in debtor countries – comes back to the World Bank via another till through foreign debt repayment. As a general rule, these sums never actually leave Washington, where the IDA and IBRD (World Bank) and IMF headquarters are located (Chapter 14). To top it off, Public Development Aid has fallen precipitously as a result of government spending cuts in the North.

41. In the face of criticisms from sections of the social movements in the North and South, the World Bank has decided to improve its public image by providing loans for healthcare, education and water treatment projects. Increasingly, these loans go to local governments and non-governmental organisations (NGOs). In addition, in 1996 the World Bank publicised a programme for easing the debt burden of the HIPC countries. This initiative received enormous support in political and media circles. Its goal is to make debt servicing more 'sustainable' for 41 countries (Chapter 14). According to the UNDP, the World Bank and IMF initiative (the HIPC initiative) involves a smaller investment than it cost to build Euro Disney on the outskirts of Paris. The 'initiative' has been greeted with open arms by a number of NGOs in the North and South, by the governments of the concerned countries and by the media. However, it offers no real solution to the problems of debt burden and the drastic cuts being made in social spending in the debtor countries. The two real objectives of the IMF and World Bank are, first, to ensure that debtors can maintain regular debt payments and, second, to keep the countries in question in their clutches.

42. In its current form, globalisation is hastening environmental decline, in spite of the decisions taken at the Rio World Summit on the environment in 1992 (Chapters 8 and 10).
43. From the start, the foundations of liberal ideology have been systematically contradicted by the facts. But the economic and social crisis of the 1970s and 1980s has given this ideology a new lease on life, thanks to the global offensive of capital against labour (Chapter 13). That being said, is the neo-liberal machine not now running out of steam?
44. There is an urgent need to formulate alternatives. The starting point for such alternatives must be that of satisfying the priority human needs of the vast majority of the world's population (Chapter 17).
45. For these alternatives to begin to work in practice, the different social movements have to come out of their respective corners. We have to begin the arduous task of building a new kind of internationalism and of rethinking a project for emancipation (Chapter 18).

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# Globalisation and the Neo-Liberal Offensive

## THE DETERIORATION IN LIVING CONDITIONS: EMPLOYMENT AND WAGES

During the 1970s, the world economy began a long wave of slow growth. This stood in stark contrast to the nearly 30 years of rapid postwar economic growth that had come immediately before (Mandel, 1972, 1978, 1982; Husson, 1996; Montes, 1996; Went, 1996).

During the period 1960–73, before the beginning of the long wave of slow growth, the average annual rate of growth in the European Union (known as the Common Market at the time) was 4.7 per cent, in the United States 3.9 per cent and in Japan 9.6 per cent. Between 1982 and 1994, the respective growth rates were 2.1 per cent, 2.4 per cent and 3.6 per cent (Montes, 1996).

The crisis that began in Southeast Asia will lead to even lower growth rates in 1998. At the very best, the Japanese and South Korean economies will grow by 1 per cent. The head of the US Federal Reserve, Alan Greenspan, wondered if 'deflation might now be a possibility' (*Le Monde*, 12 January 1998 and *International Herald Tribune*, 9 January 1998). If this possibility were to become fact, there could well be a simultaneous fall in prices, wages, household consumption and industrial production. A new round of massive dismissals in industry and services could take place the world over. Even if such a sequence of events does not occur, it seems highly unlikely that high levels of growth will be reached in the short term.

Since the beginning of the crisis in the 1970s, the world has experienced a series of major changes that have progressively eroded living conditions for a majority of the planet's inhabitants. Mass unemployment has settled in for the long haul, the unequal distribution of wealth has intensified and working-class wages have fallen sharply.

## MASS UNEMPLOYMENT

### **The Industrialised Capitalist Countries**

Looking only at those countries that already belonged to the Organisation for Economic Cooperation and Development (OECD; see glossary) in 1993, in 1996 there were officially 37 million unemployed. This is three times the figure in the early 1970s, in a population with a near-zero growth rate. The average unemployment rate in these countries has more than doubled, from 3.2 per cent in 1960–73 to 7.3 per cent in 1980–94.

The number of unemployed in these countries rose by 10 million between 1990 and 1994. In fact, the 37 million figure actually underestimates the true situation because it does not account for a number of different categories of the unemployed. The number of unemployed in 1998 in OECD countries (taking into account only those countries that belonged to the OECD in 1993) is actually somewhere between 60 and 70 million.

The deregulation of the labour market is merely a mechanism for shifting from 'declared' to 'disguised' forms of unemployment through the creation of poorly paid and unproductive jobs. In 1987, according to the United Nations Conference on Trade and Development (UNCTAD; see glossary), more than 6 million people working in the service sector in the USA and more than 700,000 in the United Kingdom belonged to this 'disguised' category of unemployment. While US and Japanese officials boast about their successful fight against unemployment, the facts tell a different story. UNCTAD estimates that in 1987 – the most recent year for which reliable figures for comparison are available – the real unemployment rate was 11.5 per cent in the US, more than 13.3 per cent in Japan and more than 13.2 per cent in the UK (UNCTAD, 1995).

According to the 19 March 1993 *Wall Street Journal*, the economic restructuring currently underway 'could lead to the elimination of

some 25 million jobs in the United States, that is between one and two million jobs per year for the next 15 to 20 years'. The same issue goes on to quote the head of a consulting firm: 'We know how to explain job loss but are unable to see where jobs will be created.'

### **In the Former Eastern Bloc Countries**

Unemployment has skyrocketed since the beginning of the 1990s. World Bank officials prescribe a necessary unemployment rate of 20 per cent for these countries. Indeed, at an April 1992 seminar held in Turin on the Eastern European adjustment, one of the two World Bank representatives presented the following hypothesis: '[perhaps we should] judge our success in achieving adjustments in Central and Eastern Europe by the extent to which unemployment rises rather than by the extent to which we [are] able to keep unemployment down' (George and Sabelli, 1994).

In late 1994–early 1995 the number of officially unemployed in the Russian Federation was 1.69 million, but the real situation is actually much worse. Based on different press and trade union sources, Jean-Marie Chauvier has calculated that in early 1995 almost 12 million workers were unemployed, or 15.4 per cent of the active population (Chauvier, 1995, unpublished). The World Bank representatives' fondest wishes may yet be fulfilled!

### **In the Third World**

Official figures systematically underestimate the reality of unemployment. Our calculations reveal that somewhere in the vicinity of 1 billion jobs would have to be created to ensure properly paid work for all. The implementation of structural adjustment programmes has led to a steep increase in unemployment for a number of reasons. First, there have been mass dismissals in the public sector. Second, the domestic market has been sharply cut back, leading to bankruptcy for many companies. In 1995 in Mexico, for example, following the December 1994 crisis, 850,000 jobs were eliminated (Toussaint, 1996c). Third, export-oriented policies in agriculture have hit subsistence farming hard, accelerating the rural exodus of huge numbers of the unemployed to the cities.

Millions of jobs have been lost as a result of the Southeast Asian crisis that began in 1997. It is estimated that, in 1998, 3 million jobs

have been lost in Indonesia, 1.7 million in Thailand and 1 million in Malaysia.

### GROWING INEQUALITY IN THE DISTRIBUTION OF WEALTH AND A DROP IN WORKING-CLASS WAGES

The unequal distribution of wealth has been greatly accentuated. There has been a pronounced drop in revenue for those who are dependent on waged work, for those who work the land and for those condemned to unemployment. Those who live off revenues from capital, on the other hand, amass an ever growing share of new wealth. In the 30 years from 1960 to 1990, there was a doubling in the ratio of inequality in the way wealth was shared out between the richest and poorest sectors of the world's population. The wealthiest 20 per cent of the planet's inhabitants earn more than 150 times the income of the poorest 20 per cent (UNDP, 1992).

According to the United Nations Development Programme, 3.5 billion people taken together hold only 5.6 per cent of total global wealth. The richest 358 people on the planet have an accumulated fortune greater than the total annual wages of 45 per cent of the world's poorest inhabitants (2.3 billion people) taken together (UNDP, 1996). 'This is a comparison between assets and income, but if a comparison of assets were possible, it would be even more striking. Of course, the assets of the very poor are usually worth much less than their annual income' (UNDP, 1996).

### In the Third World

According to the World Bank, 1.3 billion people live on less than \$1 per day, which means they live below the line of absolute poverty. The World Bank has arbitrarily set \$1 as the threshold for absolute poverty in all Third World countries outside Latin America, where it is set at \$2. Yet what would be the statistical impact of bringing this measure more into line with the actual cost of living (or, rather, of survival in this case)? If it were increased to \$3 or \$4 per day, for example, it would provide a more accurate gauge of the real situation of poverty and deprivation experienced by the majority of the population in Third World countries.

The World Bank, however, has elected to obscure this harsh reality.

With the increase in the price of staples and basic services in Third World countries, \$3 or even \$4 per day are not enough to find even adequate food and shelter – never mind for education, health care and culture. By setting the threshold of absolute poverty at \$1 per day, the World Bank has consciously chosen to underestimate the number of absolute poor. The World Bank argues that poverty is a marginal phenomenon in the Third World, while in fact the majority of the population in most Third World countries live below the threshold of absolute poverty. In Brazil – whose population exceeds 160 million – the prices of basic necessities in 1997 were the same as in France and Belgium, even though the legal minimum wage was about \$100 per month. The World Bank estimates that 35 million Brazilians, or a little more than 20 per cent of the population, live below the absolute poverty threshold. In point of fact, according to our calculations, the actual figure is 60 per cent of Brazilians, three times higher than World Bank estimates. Treating poverty as a marginal phenomenon is part of an attempt to deny the ruinous failure of IMF and World Bank-imposed structural adjustment policies. The egalitarian redistribution of wealth is an inescapable measure for achieving genuine development. Falsifying statistics on poverty is one way to deny the urgent need for measures going in such a direction.

### **In Eastern European Countries**

The UNDP and World Bank have set the poverty threshold at \$4 per day per person. According to the UNDP, 90 per cent of Bulgarians were living below this threshold in 1997 (*Le Monde*, 5 March 1997).

In the Russian Federation, workers' real wages were estimated to be at 70 per cent of their 1991 levels. The ratio of inequality between the 15 million 'wealthiest' and the 15 million 'poorest' Russians was 9.05 in 1993; one year later it had risen to 16! Official sources say 23 per cent of the Russian population do not have enough to buy the basic basket of groceries, worth some \$33.75 dollars (135,000 roubles) per month. This is hardly surprising since the official minimum wage is \$5.13 (20,500 roubles) per month. In other words, a person would have to make six times the minimum monthly wage in order to afford the basic basket of goods.

Trade unions say the minimum required every month is actually higher than the official figure. They say \$42 (168,000 roubles) per month are required to 'reproduce the labour force'.

In January 1995, teachers made on average \$54 (216,900 roubles) per month, and workers in heavy industry \$95 (378,600 roubles). Workers with dependants barely manage to 'reproduce the labour force'.

The business paper *Moscow Times* estimates the cost of a basic basket of goods for the *nouveaux riches* at \$625 (2.5 million roubles) per month. It calculates the cost of a higher-quality basket of goods to be \$2,000 (8 million roubles); this is enough to live comfortably 'without excess'. Yet even this amount of money is not enough to rent an apartment in central Moscow, where rents vary between \$1,000 and \$2,000 per month. Nor is it enough to dine in the city's chic restaurants and fancy nightclubs (our thanks to *Le Monde Diplomatique* journalist Jean-Marie Chauvier for these figures).

Plunged into poverty by IMF-led structural adjustment, many republics of the former Soviet Bloc are now classified as developing countries by the World Bank, along with 'low' and 'middle-income' Third World countries (see World Bank annual reports since 1993). The republics of Central Asia now stand shoulder-to-shoulder with Syria, Jordan and Tunisia. This change in classification is not merely the result of a change in the way revenue statistics are handled. Rather, it reflects the post-Cold War situation, in which market-oriented reforms aim at the 'Third-Worldisation' of Eastern Europe and the former USSR and at concentrating wealth and well-being in a small number of 'developed' market economies.

### **In the Highly Industrialised Capitalist Countries**

There has been an undeniable decline in wages for the majority of people in these countries, too. US figures are quite striking in this respect. While household income rose across the board between 1950 and 1978, this tendency was radically rolled back between 1978 and 1993. The great majority of Americans have seen their wages decline, while the wealthiest social strata continue to accumulate new wealth (see Table 1.1).

Under the Reagan administration, the wealthiest families (1 per cent of all households) saw their average annual income rise by nearly 50 per cent. According to the 18 April 1995 edition of the

*International Herald Tribune*, 'The wealthiest one per cent of American households hold almost 40 per cent of the country's total wealth.' For an analysis of inequality in France, Alain Bihr and Roland Pfefferkorn's 1995 work *Déchiffrer les Inégalités* is extremely helpful.

Table 1.1 Evolution of the real income of US households

Between 1950 and 1978:	%
the poorest 20%	+140
the 2nd 20%	+98
the 3rd 20%	+105
the 4th 20%	+110
the richest 20%	+99
Between 1978 and 1993:	
the poorest 20%	-19
the 2nd 20%	-8
the 3rd 20%	-4
the 4th 20%	+5
the richest 20%	+18

Source: *US News and World Report*, 6 February 1995.

Between 1977 and 1992, the productivity of US workers rose by 30 per cent while real wages fell 13 per cent (Decornoy, 1995).

In the European Union, the share of wages in Gross Domestic Product (GDP) fell by nearly 10 per cent between 1981 and 1994 while capital gains rose. EU real wages had risen in the 1970s at an annual rate of 4.5 per cent, in step with increases in productivity. In the 1980s, real wages rose 0.9 per cent annually. Between 1991 and 1994, they rose 0.7 per cent annually, falling behind increases in productivity (Montes, 1996).

## THE UNDP VIEW ON DECLINING LIVING CONDITIONS IN THE WORLD

The following are excerpts from the UNDP's 1997 Report on Human Development in the World (published in French in June 1997). All references are to the UNDP report, unless otherwise stated.

The 1997 UNDP report seeks to measure the reality of human development on the backdrop of extreme poverty.

## The Third World and Eastern Europe

Over the last 15 to 20 years, more than a hundred countries in the Third World or the former Eastern Bloc have experienced a bigger and more lasting collapse in growth and drop in the standard of living than what industrialised countries went through during the deep crisis of the 1930s. (p. 7)

In the 11 October 1996 edition of *Le Monde*, UNDP director James Gustave Speth said, 'In fact, in more than a hundred countries per capita revenue is lower today than it was 15 years ago. It is quite clear that about 1.6 billion people are worse off than they were at the beginning of the 1980s.' It is worth noting, of course, that the beginning of the 1980s coincides with the generalisation of neo-liberal policies across the globe.

### The Third World

In the Third World, 1.3 billion people survive on less than \$1 per day. Between 1987 and 1993, 100 million more people joined the ranks of those earning less than \$1 a day (p. 4).

160 million children suffer from moderate or serious malnutrition. 110 million children do not attend primary school, 275 million do not attend secondary school (p. 33).

There are 1 billion illiterate people in the world, of whom 840 million are adults in the Third World. Of these, 538 million, or nearly two-thirds, are women (p. 26).

840 million people go hungry every day or experience recurrent food insecurity (p. 5).

One billion are not connected to clean water supplies (p. 5).

One third of people in the least developed countries do not reach the age of 40 (p. 5).

2.5 billion people do not have access to proper sanitation facilities (p. 32).

### Eastern Europe

With the restoration of capitalism in the countries of the former Eastern Bloc, the average rate of absolute poverty in the region – based on a daily wage of \$4 (p. 2) – has risen from 4 per cent in 1988

to 32 per cent in 1994 – an eight-fold increase. The total number of people living in poverty went from 14 million to 119 million during this same period (p. 37). Of these 119 million, 60 million live in Russia (p. 37).

In Ukraine, average daily calorie intake plummeted from 3,500 calories in 1989 to 2,800 in 1994. Children are the hardest hit. In Russia, there are 30 times more new cases of diphtheria among children – 500 cases in 1989, 15,000 in 1993 (p. 31).

In Moscow, an estimated 60,000 children live on the streets (p. 32).

In Bulgaria, the number of reported crimes has more than quadrupled, totalling 223,000 in 1994 as compared to an annual average of 50,000 in the 1980s (p. 34).

### **The Highly Industrialised Countries**

In the industrialised countries, more than 100 million people live below the threshold of absolute poverty – defined as the equivalent of 50 per cent of a country's mean individual disposable income (p. 2).

In 1971, there were 25 million poor in the US, according to the then president of the World Bank, Robert McNamara (McNamara, 1973, p. 110). By 1985, there were 11.4 million more – 36.4 million poor, about 14 per cent of the total population (Poverty in the United States: 1995, Department of Commerce, Bureau of Census, 1996).

In the US, more than 47 million people do not have health insurance (p. 31).

In London, there are 400,000 homeless, according to official figures (p. 32).

In the heavily industrialised countries, more than 5 million people are homeless (p. 27).

More than 130,000 rapes are reported every year, this being only the tip of the iceberg (p. 27).

In the US, 2 million people are victims of violent crimes every year (p. 34).

### **An Innovation of the UNDP: The Creation of the Human Poverty Index (HPI)**

The team that worked on the 1997 edition of the UNDP report sought to measure poverty in the Third World using criteria other than

income levels. It formulated a human poverty index that looks at more than just monetary criteria.

The criteria used are:

- the percentage of people at risk of death before the age of 40;
- the adult illiteracy rate;
- services made available by all sectors of the economy. To determine the quality of these services, three factors are examined: the proportion of people lacking access to clean water supplies; those lacking access to healthcare services; the proportion of children under the age of five suffering from mal-nutrition (p. 15).

Once formulated, the UNDP applied these criteria to a list of 78 Third World countries with reliable data. In spite of obvious monetary poverty, some countries are able to cushion the effects of this poverty by guaranteeing access to a number of services. ‘At the head of the list are Trinidad and Tobago, Cuba, Chile, Singapore and Costa Rica, in that order. These countries have managed to reduce human poverty to an HPI of less than 10 per cent. In other words, thanks to these countries’ specific efforts, less than 10 per cent of their population suffers from human poverty’ (p. 22). According to this system of classification, Cuba – in spite of the US blockade – comes second, rising 39 points from its standing in a list of Third World countries evaluated according to another UNDP index, the Human Development Index (HDI).

## THE FEMINISATION OF POVERTY AND THE OPPRESSION OF WOMEN

The feminisation of poverty becomes apparent when one sees the UNDP estimate that women account for 70 per cent of the 1.3 billion people recognised as living below the threshold of absolute poverty.

Workforce participation is indeed a key factor, but women also have to bear the burden of the household’s and family’s well-being. Structural adjustment programmes and their array of social spending cuts hit women harder than men. Women struggle daily to make up for the difference between decreasing incomes and increasing prices. Paying for medicine, food and school is now a virtual impossibility for a large number of women and their children. Where opportunities

arise in difficult economic circumstances, patriarchal reflexes kick in to restrict access by girls, young women and women to rights that are essential for development and emancipation. Boys attend school while girls help with the housework or go out to work to provide an income supplement for the family. In India, 61 per cent of girls (above the age of seven) and women are illiterate (UNDP, 1997, p. 55). In Nepal, twice as many girls as boys go blind due to malnourishment. In the Third World in general, more than half of all women suffer from anaemia; in South Asia, anaemia affects 78 per cent of all women (UNDP, 1997, p. 31). In the Zimbabwean capital Harare, the number of women that die during childbirth doubled in the two years following the implementation of a structural adjustment programme which involved a 33 per cent cut in healthcare spending (UNDP, 1995, p. 44).

The capitalist system's tendency to reorganise the world economy in its own interest has had direct repercussions on relations between the sexes. An analysis of the methods used reveals that, on the one hand, the capitalist system takes full advantage of a pre-existing form of oppression: patriarchy. At the same time, it accentuates the features of this oppression. Indeed, women's oppression is a weapon that capitalists use to control the workforce taken as a whole, and even to justify their policies by shifting the responsibility of social welfare from the state and collective institutions to the 'privacy' of the family.

Take the example of dowry in India. Many think that forms of gender-based violence – dowry deaths and the abortion of female foetuses – are somehow the 'remnants' of a 'backward' society. Yet studies by Indian feminists prove that, on the contrary, it was the development of capitalism in India that led to an increase and intensification of these forms of violence (Shah and Srinivasan, in Duggan and Dashner, 1994).

Based on current wage rates, the invisible non-monetary contribution of women is worth \$11,000 billion. When one considers that the total value of annual world production is \$23,000 billion, it is easy to understand women's contribution to humankind taken as a whole (UNDP, 1995, p. 6). To top it off, this figure does not account for persistent injustice in women's wage rates where their work is indeed paid for.

Even considering those places where significant progress has been made in this field, not a single country pays women at the same rate

paid to men. Some industrialised countries have even fallen way back in the human development classification. Canada, for example, dropped from first to ninth place; Luxembourg fell 12 places; Holland 16; Spain 26 (UNDP, 1995). Predominantly female professions are undervalued (healthcare, teaching). As far as the social safety net is concerned (unemployment insurance, for example), women were the first to be excluded by austerity packages as 'live-ins' and long-term unemployed. They are herded into jobs where wages are much lower, such as in free market zones. In Mexico's *maquiladoras*, for example, women's wages have plunged from 80 per cent to only 57 per cent of those of male workers. The fact that women work for a pittance in such zones and in the informal sector is glorified by free marketeers, starry-eyed over the absence of 'paralysing' state regulations.

Official studies in the Chinese countryside carried out in 1988 and 1989 reveal that women earn 20 per cent less than men. Private firms in the cities pay women on average 56 per cent of a man's wage.

Women's right to work is impeded by a multitude of government measures. Women, of course, have the 'option' of part-time work, which could be anything from half-time down to a 'zero-hour' contract in which the worker is at the employer's beck and call to work from zero up to any number of hours. And this, in spite of the fact that every opinion poll has shown that a majority of women workers would like to work full-time. Cutbacks in funding for services such as nurseries and daycare centres, and the privatisation of other services like retirement homes dramatically increase the number of obstacles for women that want to work full-time. 'Equality at work' has been applied negatively to bring back night-shifts for women. This is unacceptable as a point of principle and extremely difficult for women in any case given their family responsibilities.

In the Third World, the World Bank – with the help of a number of NGOs – finances a host of women's organisations and cooperatives. It has decided all of a sudden that women are the key to development. Although the World Bank is clearly trying to boost its public image, it is only laying the groundwork for future misfortune. Take the example of women-run tomato cooperatives in Senegal. They worked very well until the day an Italian multinational decided to take over the Senegalese market, crushing the defenceless cooperatives with their competition and lower prices. The NGO concerned packed up

shop once 'its' project was 'complete', leaving the locals to deal with the nagging question of the unpaid World Bank loan.

Another effect of the patriarchal system is that poverty goes hand-in-hand with violence. Before birth, female foetuses are aborted; during childhood, there is sexual abuse; domestic violence after marriage. An estimated 4 million women are victims of domestic violence in Germany. In Canada, New Zealand and the United Kingdom, studies show that one women in six is raped during her lifetime. In 1997 in Spain, more than 60 women were killed by their partners. Suicide among women is higher than among men. Violence against women erupts in times of broader conflict; of this, events in the former Yugoslavia and in Algeria provide ample evidence. Violence is an integral part of women's lives.

'While women account for half of the electorate, only 13 per cent of seats in parliament are occupied by women; and only seven per cent of government posts' (UNDP, 1997).

This handful of statistics, though far from exhaustive, demonstrates more than ever the need for a specific struggle by women for their emancipation. Let no one reduce this to a matter of 'biology'. Rather, it is a matter of wide-ranging choices a society must make to ensure development, the only way to create genuine personal choice in a series of key areas. Women in the North have better lives than their sisters in the South thanks to the underlying fabric of social gains from previous decades. Women must take on the ideological, political and economic system that erodes these gains or prevents them from being adopted.

## THE GLOBALISATION OF CAPITAL: THE GROWTH OF MULTINATIONALS

As part of the long wave of slow growth that began in the 1970s, a number of significant changes have occurred in the way the world economy is structured. Many economists have called this 'globalisation' (see glossary).

Multinational corporations have played a central role in this process. They have increased their presence both in production and trade (Adda, 1996; UNCTAD, 1994, 1997; Andreff, 1992 and 1996).

Today these corporations control 70 per cent of international trade and 75 per cent of foreign direct investment. An estimated one third

of global trade in goods and services is made up of intra-firm trade between multinationals and their subsidiaries. According to UNCTAD's 1994 report, 37,000 multinationals (and their 200,000 subsidiaries) employed 73 million workers directly and about the same number indirectly through their subcontractors. Their assets were worth about \$5,000 billion. More importantly, according to the same study, the 100 biggest (non-bank) multinationals hold \$3,400 billion in assets, or nearly one-sixth of the estimated value of all existing assets in the world. Two-thirds of this wealth is held in the

Table 1.2 Turnover or GNP in \$billions (1992)

General Motors	132.4
Indonesia	126.4
Denmark	123.5
Exxon	115.7
Norway	112.9
South Africa	103.6
Ford	100.1
Turkey	99.7
Royal Dutch/Shell	96.6
Toyota	81.3
Portugal	79.5
IBM	64.5
Venezuela	61.1
Malaysia	57.6
Unilever	43.7
Pakistan	41.9
Nestlé	38.4
Sony	34.4
Egypt	33.5
Nigeria	29.6
Five biggest MNCs	526.1
Middle East and Africa	454.5
South Asia	297.4
Sub-Saharan Africa	269.9

Source: Institut de Recherche des Nations unies pour le Développement social, *States of Disarray*, Geneva, 1995.

multinationals' small number of home countries. The 200 biggest multinationals have a total turnover equivalent to more than a quarter of the sum of the entire world's gross domestic products. The main multinationals have a turnover that is higher than the GDP of a large number of countries.

Table 1.2 compares the turnover of the biggest multinationals with the GNP of a few countries and regions in the world.

## THE POLITICAL FACTOR

Globalisation cannot be understood merely by looking at the increase in the weight of multinationals. The political factor has also been essential. Without the active political intervention of the Reagan and Thatcher governments, and then of all the governments that chose to follow their lead, multinational corporations would not have been able so swiftly and so radically to do away with the restrictions hitherto preventing them from acting as they pleased, from exploiting economic, human and natural resources as they saw fit (Chesnais, 1996).

This political intervention was carried out with four key objectives in mind. First, the liberalisation of international capital flows and the opening of domestic markets to international competition. Second, the privatisation of state-owned companies and public services. Third, the deregulation of the labour market and the dismantling of the social safety net. Fourth, maintaining and improving competitiveness through the pursuit and achievement of the first three objectives.

The line of thinking that justified this political intervention has been summed up by the Lisbon Group:

No matter the targeted sector (expanding or in decline, hi-tech or not), or the size, strength and level of development of the country in question, the argument has always been the same. Privatisation is urgent, they say, in order to increase the competitiveness of an industrial sector, a company or an economy in the throes of globalisation. In addition, all markets must be liberalised in order for local industry and companies operating on a global scale to be competitive on international markets. Finally, industrial sectors and markets have to be deregulated in order to accelerate the privatisation process, and in the process increase the competitiveness

of local companies and the national (or regional) economy as a whole.

Since these pressures are applied in most fields and, for the first time, in almost every single country, everyone is trying to out-compete everyone else and to be competitive the world over. In such conditions, the near-universal ascendancy of competitive capitalism as a normative system should not come as a surprise. The bigger they are, however, the harder they fall. (Petrella, 1995)

### **Past Wage Concessions have not Created the Promised Jobs**

The dominant discourse sought to obscure another battle that still rages today. The holders of capital have launched repeated attacks to lower wages (and employer payroll taxes) and create more flexible work schedules – all in order to intensify the rate of utilisation of the productive apparatus (machines).

In spite of worker resistance, employer attacks have scored significant victories. Mass unemployment has been created and used by the dominant classes to roll back social gains in all fields.

The results speak for themselves. The gross profits of the big industrial houses have increased over the last few years in almost all the big capitalist countries, thanks to the combined effects of unemployment, the downward pressure on wage costs and the introduction of new methods of production (Serfati, 1996). While it is not easy to measure the rate of profit, we can take note of the increase in the rate of capital profitability (to use OECD terminology) on the basis of studies by official bodies. According to the OECD, the rate of capital profitability in the private productive sector rose from 13 per cent in 1980 to 15.9 per cent in 1994. According to European Union (EU) estimates, based on a profitability index where 100 is the rate registered in the period 1961–73, profitability dropped to 71 in the period 1974–85, and was back up to 88 in 1994 (Montes, 1996, p. 142). According to the April 1997 edition of *Fortune* magazine, the 500 biggest companies in the world are all smiles; their 1996 profits were up 23 per cent from 1995 even though their turnover had only increased by 8.3 per cent.

The official discourse justified 'today's wage concessions' on the basis of the 'profits, jobs and prosperity' that were promised for 'tomorrow'. The profits came, the rest did not. The conditions for prof-

itability have been restored, but this growth will remain fragile for a long time to come; and there is mass unemployment (Husson, 1996). The weakness of effective demand – due to the reduction of both the buying power of the majority of the world's population and of government social spending – is one of the main reasons for the world economy's persistently sluggish rate of growth (Toussaint, 1995b).

# The Concentration of Capital

## A WAVE OF CORPORATE MERGERS AND TAKEOVERS AND THE CONCENTRATION OF CAPITAL

Since the second half of the 1980s, there has been a large number of corporate mergers and takeovers the world over. This wave has been helped along by the neo-liberal policies described in Chapter 1. These policies have meant privatisation and the elimination of government controls on the acquisition of domestic firms by foreign capital. This wave of mergers/takeovers can best be gauged by the rapid increase in foreign direct investment (FDI) (see glossary).

Between 1985 and 1991, total FDI rose three times more quickly than global trade. The vast majority of these investments have gone into corporation takeovers and mergers. They have only been responsible for a very small increase in productive capacity; usually they involve property changing hands, leading to greater concentration of capital on an international level (Chesnais, 1994).

Table 2.1 shows that, in terms of value, foreign investment in the United States has gone much more into buying up existing companies than into creating new ones.

A study carried out by the US Federal Reserve has revealed that more than a third of companies acquired between 1984 and 1989 were resold during the same period.

Table 2.2 shows that in a great number of economic sectors, a handful of multinational corporations control the large part of production (called a situation of oligopoly; see glossary). Though oligopolies existed before, they have become much more common since the 1980s.

Table 2.1 Company acquisition and creation by foreign capital in the US

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Acquisition									
by value (\$ billions)	5	12	20	31	34	65	60	55	17
by number	229	315	390	555	543	869	837	839	501
Creation									
by value (\$ billions)	3	3	3	8	6	8	9	n/a	n/a
by number	476	449	363	485	435	555	456	n/a	n/a

Source: Survey of Current Business, May 1992. From François Chesnais, 1994, p. 70.

Banking, retail sales, tourism and mass media are further examples of corporate concentration in the framework of globalisation.

In 1995, five advanced capitalist countries (US, Japan, France, Germany and the UK) controlled 168 of the 200 biggest multinational corporations (Clairmont, 1997). These 168 account for 85.9 per cent of the overall turnover of the 200 biggest corporations.

The Third World is virtually absent from such rankings. Only China, Brazil, Venezuela and Mexico make a modest appearance, with one multinational each. These four multinationals account for only 1 per cent of the overall turnover of the 200 biggest corporations. South Korea has indeed entered the select club of the major industrial powers. However, its six multinationals account for only 2.3 per cent of the 200 biggest corporations' total turnover. It will be interesting to see what happens to South Korea's multinationals following the crisis that began in 1997. The main multinationals of the industrialised countries are in favour of dismantling a number of South Korean industrial houses organised into chaebols. It is therefore not excluded that a number of South Korean multinationals will be cut back and lose their place in the Top 200 hit parade.

### THE 'GLOBAL VILLAGE'

The term 'globalisation' is sometimes linked to the idea of a 'global village'. This gives globalisation a very user-friendly image.

Accelerated concentration in the mass media sector has given a boost to this image makeover. Images we see on the television news are in fact rebroadcast by television networks the world over. A huge

Table 2.2 Some examples of global concentration at the end of the 1980s and in the 1990s

Glass automobile parts	1988	Three corporations account for 53 per cent of global production
Tyres	1988	Six corporations account for 85 per cent of global production
Database management	1987	Five corporations account for 65 per cent of global production, 10 corporations for 100 per cent
Medical equipment	1989	Seven corporations account for 90 per cent of global production
Instant coffee	1994	Two corporations account for 80 per cent of global production
Grain	1994	Five corporations account for 77 per cent of total marketed production
Bananas	1994	Three corporations account for 80 per cent of total marketed production
Tobacco	1994	Four corporations account for 87 per cent of total marketed production
Image banks	1994	Three corporations control 80 per cent of the world market
Cars	1994	Ten corporations account for 76 per cent of global production (the five biggest account for 50 per cent)
Telecommunications and related equipment	1997	Four corporations account for 70 per cent of global sales
Civilian aeronautics	1998	Two corporations (Boeing and Airbus) account for more than 95 per cent of global production
Microprocessors	1997	One corporation (Intel) controls 60 per cent of the market

Source: author, based on Petrella (1995) and Chesnais (1997).

majority of these television images are produced, chosen and marketed by three image banks that control 80 per cent of the market (see Table 2.2). In an era in which an event is not judged to have occurred unless it has appeared on television, these image banks have tremendous power.

What is not shown on television simply does not exist. The way an event is shown also plays a big role, as does the spoken commentary. We have an increasingly one-dimensional and monolithic 'world view', of which CNN provides a very good example.

The effects are staggering. African television audiences see the situation on their continent through the eyes of local networks that are fed their material by international news agencies and image banks. In other cases – and this is hardly much better – the former colonial powers' television networks provide material to African stations. France's former colonies in Africa are submerged in footage from France's public networks, free of charge. Africa's public networks do not have the means to provide their own footage. A reporter from Côte d'Ivoire once quipped that it was easier to get footage on the condition of farmers in the northeast of France than on farmers in his own country.

In this sense, the 'global village' fosters exclusion. The 'globalisation of news' means excluding a part of the planet. In a village, everyone knows their neighbours. In the 'global village' of the media, they do not.

Entire regions of the planet only make the news when there is a catastrophe of one sort or another. Dozens of television teams all converge on one location at the same time to give viewers live coverage of the catastrophe. The genocide of Tutsis and mass murder of Hutu dissidents by the Rwandan army and the paramilitary militias of the Habyarimana regime, in which about 1 million people died, were not shown at the time they were carried out (April–May 1994). Rwanda only really hit the screens in July–August 1994, when a section of the Rwandan population fled the country *en masse* towards former Zaire as part of the French army's Operation Turquoise. Television coverage by French networks, broadcast through much of French-speaking Africa, did not mention the support given by French officials to those responsible for the genocide before, while and after it happened. Indeed, French soldiers backed by African contingents, especially from Senegal, were portrayed as saviours.

Concentration in the written press and the establishment of veritable global media empires (Maxwell, Murdoch, Hersant) have snuffed out a large number of quality papers, a process also under way in the former Soviet Bloc.

When you throw the concentration of film production and distribution companies into the mix, there really is not that much left. The same big-budget movies are released almost simultaneously in all the world's main cities. The same kind of values and ideological content flood the world with a speed and power never dreamed of in the past.

Those with political and economic power have always used big media to push their policies and interests, even when this involves military or repressive action. Television is fully harnessed in this respect. The landing of American soldiers in Mogadishu on 9 December 1992 was timed to coincide with American 'prime time'. A single perspective of the so-called humanitarian Somalia operation was simultaneously broadcast across the globe.

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# Globalisation and Exclusion: the Marginalisation of the Third World and the Strengthening of the Triad

Third World countries have been cast further onto the margins by the rise in foreign direct investment (FDI) (see Figure 3.1).

Figure 3.1 clearly shows how sharply the flow of investment into Third World countries has fallen in proportional terms. The fall is

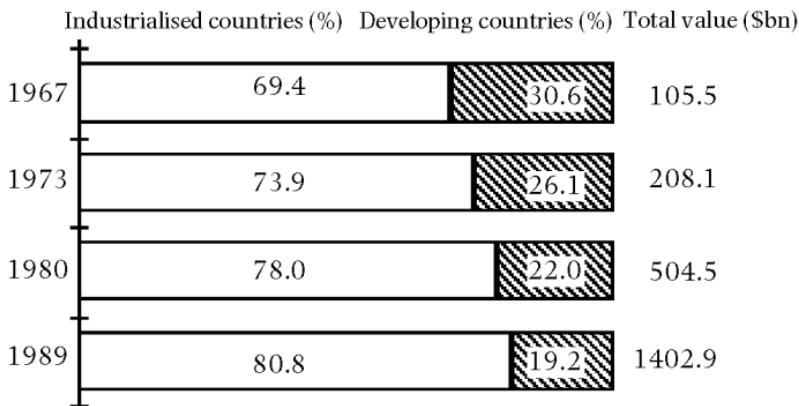


Figure 3.1 Distribution of foreign direct investment

Source: US Department of Commerce, Bureau of Economic Analysis (from Chesnais, 1994, p. 49).

even more striking once a distinction is made between different categories of Third World countries. Of the world's 180 states, about 140 can be classified as part of the 'Third World'. Just ten of these, primarily in Southeast Asia (including China), have received the lion's share of FDI since 1990.

Between 1989 and 1993, China and a few countries in Southeast Asia and Latin America took in 70 per cent of net private investment in developing countries – a category that includes Eastern Europe and Southern Europe (Portugal, Greece, Turkey). China (20 per cent) and Mexico (13 per cent) have taken in one-third of the total, while South Asia, the Arab world and sub-Saharan Africa have all together taken in only 8 per cent (Adda, 1996).

Table 3.1 shows the crushing weight of the Triad zones as both FDI sources and destinations. Investment between heavily industrialised countries accounts for 78 per cent of total FDI, 27 per cent between heavily industrialised European countries. The Third World (TW) is utterly marginal to this process, taking in only 18 per cent of total FDI.

Table 3.1 Origin and destination of FDI flows in 1990 (percentage of total world FDI)

	IC	US	WE	JA	OT	TW	World
Industrialised countries (IC)	78	22	44	2	10	16	94
United States (US)	19	–	13	1	5	6	25
Western Europe (WE)	46	14	27	1	4	6	52
Japan (JA)	9	6	2	–	1	3	12
Others (OT)	4	2	2	–	–	1	5
Third World (TW)	4	2	2	–	–	2	6
World	82	24	46	2	10	18	100

Source: De Laubier, 1993, based on IMF figures and national sources; from Adda, 1996.

Table 3.2 shows the unequal distribution of investment flows to the Third World. East Asia and Latin America take in 79 per cent of the total. Sub-Saharan Africa and South Asia, although more populated, take in only 8 per cent. As such, in 1992, 60 per cent of FDI in the Third World went to five countries: China, Mexico,

Argentina, Malaysia and Thailand. China alone took in \$40 billion of FDI between 1991 and 1993, second in the world only to the US.

Table 3.2 1987–92 FDI flows to developing regions (\$bn and %)

	1987–89	1990–92	% of 1987–92
Total			
Sub-Saharan Africa	5.1	4.3	6
North Africa	4.1	3.4	5
Middle East	2.1	3.4	3
South Asia	1.2	1.5	2
East Asia	21.2	45.6	43
Latin America	20.9	34.6	36
Eastern Europe	0.3	7.5	5
Total developing world	54.9	100.3	100

Source: World Bank, World Debt Tables (1994); tallied by Adda, 1996.

In 1996, China took in \$42 billion of FDI (UNCTAD, 1997). The crisis that broke in 1997 might lead to an overall drop in the share of world FDI to developing countries.

### INTRA-TRIAD INVESTMENT

US multinationals have been behind a number of mergers and takeovers – in Western Europe, above all, but also in Japan. They would have liked to go further in Japan, but there are strict limits on foreign acquisitions of Japanese companies. The multinationals of the different EU countries have been involved in a great many takeovers and fusions within what is now the Single Market, on the one hand, and in North America, on the other. They have had even less success than the Americans in acquiring Japanese companies. Since 1989–90, German multinationals have bought up a number of companies in the former Soviet Bloc, especially in countries with whom Germany shares a border. Japanese multinationals have invested in North America, Europe and their zone of influence in Asia. Japanese companies have thus outstripped their competitors by penetrating key markets while protecting their own with government backing. US multinationals have topped the Europeans

thanks to backing from their powerful government. As a result of this process of fusion and acquisition, the international character of the main multinationals has been given a boost, as has their domination of the world market (Andreff, 1996; Chesnais, 1994; Clairmont, 1997).

### STRENGTHENING OF THE TRIAD

In the area of global trade, too, the relative weight of the Triad has been increased while most of the Third World has been further marginalised.

Table 3.3 highlights this general tendency in no uncertain terms.

Table 3.3 Relative share of the world market in manufactured goods

	1980 %	1990 %
Industrialised OECD countries	62.9	72.4
G7 countries	45.2	51.8
Triad countries	54.8	64.0
Rest of world	37.1	27.6
11 countries*	7.3	14.6
102 poorest countries	7.9	1.4
TOTAL	100.0	100.0

\* Hong Kong, South Korea, Taiwan, Singapore, Turkey, Thailand, China, Mexico, Malaysia, India, Israel.

Source: Data from Ugur Muldur, *Les formes et les indicateurs de la globalisation*, FAST, Commission des Communautés Européennes, Brussels, 1993 (Petrella, 1995, p. 135).

### INCREASED DEPENDENCE FOR THE THIRD WORLD

#### **Are Asia's Four 'Tigers' the Exception to the Rule?**

Only a few Third World countries have emerged from dependence. South Korea and Taiwan are without a doubt in this category. These two countries obtained membership in the exclusive club of the developed world thanks to policies that have nothing in common

with the prescriptions of the IMF and World Bank (Coutrot and Husson, 1993; Ugarteche, 1997).

Hong Kong and Singapore are special cases. These two cities are financial centres above all. Hong Kong has been returned to China, its economic future is closely intertwined with the mainland's. According to the World Bank, in 1990 South Korea, Taiwan, Hong Kong and Singapore accounted for 61 per cent of Third World manufacturing exports.

There are other Third World countries that seemed to be making something of a leap forward, such as Mexico, Thailand, Malaysia, Indonesia and the Philippines. The IMF and World Bank pointed to these countries as examples – that is, until they were sent reeling by a major crisis, in 1994 in the case of Mexico and in 1997–98 for the others. These countries are in a very vulnerable position, due to a combination of high external debt, a structural trade deficit and the volatility of financial inflows and outflows since the beginning of the 1990s.

### **Increased Subordination of the Majority of Third World Countries to the Imperialist Centre**

Any simplistic reading of the current situation should, of course, be avoided. The Third World has not been totally brushed aside by the Triad. A number of Third World countries have built up a relatively solid industrial base which is not about to disappear at the wave of a magic wand. It is none the less striking to observe the unprecedented degree of freedom to manoeuvre that multinationals from the developed capitalist countries have obtained – thanks to privatisation and other neo-liberal measures in the countries in question. What's more, the external debt crisis in these countries has created a situation in which the multilateral financial institutions (IMF and World Bank) and the governments of the main industrial powers have been able to dictate a series of measures in the form of structural adjustment programmes (SAPs) (see Chapter 11). Strategic economic sectors key to the development of these countries have been handed over to the multinationals. The result has been a kind of regression, a return to pronounced dependence and subordination in a number of Third World countries that had attempted – not without success – an incipient autonomy in economic development. This applies to Mexico, India, Algeria, Brazil, Argentina and Venezuela. Countries

such as Malaysia, Indonesia, Thailand and the Philippines – often described as four ‘dragons’ following in the footsteps of the four ‘tigers’ (South Korea, Taiwan, Hong Kong and Singapore) – did experience real economic growth, but it was highly dependent on the multinationals, low-cost exports and chronic external debt. These countries are essentially suppliers of cheap labour (Salama and Tissier, 1982); they are not set to develop autonomously along South Korean lines. South Korea itself has been thrown off course by the recent crisis, and at the end of 1997, had to accept an adjustment package dictated by its competitors in charge of the IMF. The unfolding crisis in the four ‘tigers’ – especially in South Korea – is an opportunity for the main industrialised countries and their MNCs to take a chunk out of their overly obtrusive South Korean competition.

As for most of Africa, Central America and the Caribbean, most of South America and South Asia, there can be no mistaking their increased marginalisation.

### **Three Regional Blocs within the Triad**

Each Triad has its own regional bloc.

#### *The US–Canada–Mexico Bloc*

Established by the North American Free Trade Agreement that came into effect on 1 January 1994, this bloc is clearly dominated by the United States – which also seems to have successfully reimposed its political and military world supremacy. This has gone in tandem with real economic recovery. The dollar remains the main reserve currency and the currency of choice for international transactions. The world’s central banks still hold about 60 per cent of their liquidity in dollars (de Brunhoff, 1996). This affords the US the luxury of shifting onto others a significant part of its public debts and trade deficits. Mexico is obviously the weak link in the chain that holds the NAFTA bloc together. The 1994 economic crisis enormously increased Mexico’s subordination to the US. The best symbol for this state of affairs is that, since January 1995, Mexican oil revenues have been used as collateral for the payment of the country’s external debt. A US judge can decide to freeze Mexican oil revenues in a bank account if Mexico is unable to meet its foreign debt obligations.

### *Japan at the Centre of an East and Southeast Asian Bloc*

Some commentators have raised the idea of an Asian-Pacific bloc – or even an Asian-Oceanic bloc, pointing to the strong links between Australia and New Zealand, on the one hand, and Japan, on the other (Lafay, 1996).

Be that as it may, this bloc has Japan at its centre, with South Korea and Taiwan kicking in as second-tier engines. Supplying cheap labour to the bloc are Indonesia, Malaysia, Thailand and the Philippines (Salama and Tissier, 1982). Whatever its successes, this regional bloc has revealed its weaknesses since the outbreak of the crisis in 1997. The major crisis in Japan itself has prevented it from playing a more active role to stabilise the situation. The US and Europe seem poised to make headway in the region thanks to massive privatisation in South Korea and in the 'dragons'. They may even be able to swoop in to take advantage of the clean-up of the financial system in Japan, although this is unlikely.

### *The European Bloc*

The European bloc is very different. The European Union (EU) is a conglomerate of nation-states involved in an attempt to establish a single currency and a supranational structure that performs functions usually devolved to national states. The other blocs are organised hierarchically around a single nation-state (the US, on the one hand, and Japan, on the other) which remains the anchor for multinational corporations born on its soil. The EU is more open to foreign competition than the other two blocs of the Triad; it has less of a presence in outside markets. It also has great difficulty finding a dynamic way to organise what it considers to be its natural periphery – the Mediterranean, Eastern Europe and the 70 countries of the Africa–Caribbean–Pacific (ACP) zone which used to be European colonies and have signed the Lomé Convention (European Commission, 1997; CLONG, 1997). The conflicting interests of some EU member countries also make it difficult to pursue a common project.

### **The Triad Takes Centre-Stage**

Both the development of investment flows and the rise in international production and trade have put the Triad in the driver's seat. Countries of the Third World and former Soviet Bloc far removed

from the three Triad centres are increasingly marginalised. Multinationals determine where to make productive investments in relation to the Triad's zones of influence: in Mexico rather than in Ecuador or Costa Rica; in the Czech Republic or Hungary rather than in Russia or Romania; in Turkey or Tunisia rather than in sub-Saharan Africa; in Taiwan or China rather than in Pakistan. In general, wage costs are not the overriding criteria. Proximity and access to the targeted Triad market are far and away the key factors in most cases. A country that can offer two or three – among proximity, access and low wages – will be accorded priority status. In 1993, 68 per cent of Japanese investments in the Third World went to East Asia and the Pacific region (40 per cent to China). Predilection for these regions can be as much a curse as a blessing, leading as it can to increased dependence. Mexico, for example, gets most of its FDI from US companies, largely in the form of assembly plants for which 90 per cent of inputs are of US origin (Toussaint, 1994).

A country like Brazil continues to take in large sums of foreign investment, but they go almost exclusively into the São Paulo–Rio–Belo Horizonte triangle. This region has a population of 40 million, some of whom earn enough to provide a potential outlet for non-perishable consumer goods (Salama and Valier, 1994). The remaining population here and elsewhere in Brazil is of little interest to foreign investors.

### **Global Commerce Dominated by the Industrialised Countries**

Table 3.4 The share in global exports of the three main blocs of developing countries between 1950 and 1990

	1950 %	1980 %	1990 %
Latin America	12.4	5.5	3.9
Asia	13.1	17.8	14.0
Africa	5.2	4.7	1.9

Source: Overbeek, 1994 (from Went, 1996, p. 42).

Another source, the 1992 GATT report, provides figures that differ from those in Table 3.4. The report says that industrialised countries held a 72.4 per cent share of the global trade in commodities in 1990 (see Table 3.3) as compared with the 22.9 per cent share of developing countries. Eastern Europe had a 4.7 per cent share.

Trade between industrialised countries accounted for 55 per cent of total global trade in commodities.

Trade between industrialised countries accounted for 76 per cent of their total share in world trade.

In other words, not only do industrialised capitalist countries dominate world trade (72.4 per cent); trade between them (76 per cent of their total trade bill) is considerably greater than trade with the rest of the world.

Furthermore, trade between developing countries accounts for only 32.5 per cent of their total foreign trade (including between one another). This shows how far developing countries' trade is dominated by trade with the industrialised world (67.5 per cent). Developing countries are thus at polar opposites from their industrialised capitalist counterparts.

South–South trade (32.5 per cent) is much less important for the South than North–North trade (76 per cent) is for the North.

### **The Scramble for MNC Investment**

Third World and former Soviet Bloc countries abandoned policies aimed at relatively autonomous development. This was the result, on the one hand, of the external debt crisis and the exhaustion of their development model; and on the other, of the increase in the power of MNCs and prominence of policies dictated by the IMF, World Bank and GATT (now World Trade Organisation – WTO). As a consequence, these countries were driven to fight for a share of direct investment from multinational corporations (MNCs).

They also went to war with one another – prodded along by the IMF, World Bank and WTO – through policies aimed at ‘export-oriented development’. These policies have led to a generalised collapse in the prices of products exported from the Third World (see Chapters 7 and 8).

The United Nations Conference on Trade and Development (UNCTAD) was created in 1964, at a time when a large number of former colonies had just gained their independence and were

exerting pressure for steps towards a new global economic order. Yet UNCTAD itself made an about-face at the beginning of the 1990s. UNCTAD put itself at the disposal of MNCs and promoted the policy of 'export-oriented development'. It began sending out reports to Third World governments which explained how to go about attracting investment and competing with one another. To all intents and purposes, the 1993 UNCTAD report declared, 'Multinationals are the only salvation!' (Decornoy, 1993). More recently, UNCTAD has made some gestures inspired by its original objectives; its 1995 report calls for a one-off property tax, and a tax on international financial transactions of the kind advanced by James Tobin (see Chapter 17). In the latest twist, however, the 1997 UNCTAD report takes a hard neo-liberal line. The institution's general secretary, Rubens Ricupero, declares, 'Governments must encourage liberal trade and investment policies and a culture of competition, in order to maximise their economy's potential' (UNCTAD, press communiqué, 21 September 1997). This is a definite step backwards compared to 1995. The report is also excessively optimistic about the prospects for FDI in Third World countries and its supposed potential for lifting them out of dependence. When the 1997 report came off the presses, FDI in China and the Southeast Asian 'dragons' had already dropped significantly.

### **Multinationals take Shelter from the Market: Intra-firm Trade**

At least one-third of world trade takes place within individual multi-national corporations.

As a result, world trade statistics based on trade between countries do not accurately reflect the reality of global trade.

MNCs loudly proclaim their free market mantras in favour of unimpeded competition. This, of course, doesn't prevent them from protecting themselves from such competition when and wherever possible, especially when it comes to determining the price of their inputs. They organise trade between their different operations based on criteria that have little to do with free-market principles (see section devoted to South-North transfers). 'Do as I say, not as I do.'

Incredible as it may seem, those who attempt to justify these practices do not shy away from invoking the 'imperfections' and 'defects' of the market. One such analyst, Mr Casson (author of

*Transaction Costs and the Theory of the Multinational Enterprise*) lists the various problems MNCs can solve by placing themselves outside the ambit of the market. Casson explains that the market does not allow for contact between seller and buyer; that it means ignorance of one another's needs; there is no agreement on price, no confidence that the ordered goods conform to the buyer's specific needs; there are trade tariffs, taxes on profits made in the transaction, price controls; there is no confidence that goods will be returned in case of non-payment, and the list goes on (from Chesnais, 1994).

Does our dear Mr Casson realise that he has in fact formulated a rather trenchant overall critique of the free market system *per se*?

# Financial Globalisation

## INCREASE IN THE FINANCIAL ASSETS OF INDUSTRIAL MNCs

Multinational corporations have adapted remarkably well to the new global financial realities. No surprise, really, given their own increased involvement in financial operations that are often far removed from their largely industrial origins. A number of traditionally industrial companies now come closer to resembling financial outfits that make ongoing decisions based on the profitability of investments made in their various subsidiaries and sectors of activity. To all intents and purposes, they are financial houses with an industrial focus.

In such a situation, even the biggest industrial concerns see their productive operations as one among many forms of capital valorisation. The term ‘global’ is used to characterise the strategy of multinational corporations; in the present context, it has two complementary meanings. On the one hand, it corresponds to the planetary (even if largely concentrated in the US–Europe–Japan Triad) scope of corporate activity. On the other hand, it reflects the fact that corporate strategy is ever more clearly based on asset valorisation – of both a financial and industrial nature, in broadly equal parts (Serfati, 1996). Most industrial houses have set up enterprise banks and credit establishments that handle their financial operations. According to a study carried out by the MacKinsey firm on 325 multinational corporations, such banks have been gateways to success for those that have set them up.

## A DRAMATISATION OF THE EFFECTS OF FINANCIALISATION ON THE BIG INDUSTRIAL HOUSES

The scenario that follows illustrates the kind of decisions that have to be made to settle conflicts of interest within a company. The scene is a board of directors meeting at General Motors, the world's top auto company. The scene opens with the head of sales.

*Mr Fenderbender:* 'In recent months, we have observed an increase in domestic sales for both our economy family models and our light transport vehicles. The increase is due to a recovery in household spending. The overall climate of increased economic growth, greater job security linked to forecasts of continued expansion, and wage increases obtained by workers in certain sectors – not "ours", of course! – have convinced a number of households that now is the time to replace their old cars. They were reticent just six months ago, not any longer. The increase in household spending has also had positive effects on the retail sector generally speaking. As a result, small and medium-sized retailers are themselves ordering light transport vehicles. Let's hope that the Clinton administration sticks to its current expansionary policies.'

Attention now turns to Mr Greenbacks, head of GM's financial division.

*Mr Greenbacks:* 'Unfortunately, I cannot share my esteemed colleague's optimism. Household spending is up because interest rates were slightly lowered in response to signals sent by the Clinton administration to the Federal Reserve. True, households can now take out consumer loans; nevertheless, this drop in interest rates is not all good news for us. Indeed, 48 per cent of our assets are now invested in the financial sector. The drop in interest rates is a blow to the profitability of these investments on financial markets. Let me remind you, dear members of the board, that you decided to invest an increasing share of liquidities deriving from vehicle sales in financial operations, so that the company's money would not be left to stagnate. Of course, this is the way all big corporations the world over run their affairs.'

'Keep in mind another point. If household spending continues upward, if there is further expansion, we will be able to increase

our sale prices in step with the competition. That is as it should be. But this will push up inflation. And increased inflation means a symmetrical decrease in the yield of our financial investments in the country.'

At this point, the chairman of the board takes the floor.

*Mr Hedhonshow:* 'If I understand correctly, we are caught in a trap. The increase in sales has created an increase in profits from our industrial division, but has also provoked a drop in profits from our financial division. At the end of the day, we're just going round in circles. Worse, if inflation picks up we might even register losses. What do you suggest we do, Mr Greenbacks?'

*Mr Greenbacks:* 'I propose a compromise. We pocket the new profits stemming from the increase in sales. Then we contact the other companies, including the competition, and propose that we all put pressure on the Clinton administration to nudge interest rates back up in four months' time. My colleague in sales will have enough time to offload all his stock of unsold vehicles and whatever is manufactured at the present pace in the meantime. As a result, no one new will have to be hired to increase production. We come out ahead on all fronts, since inflation will be curbed and our capital gains on financial markets will be only slightly cramped between now and then.'

This is, of course, a highly simplified portrayal of corporate dilemmas that are much more complicated in real life. It does, however, provide some idea of key changes that have taken place in the business world – in particular, the growing contradiction within industrial houses between the interests of industrial and financial capital. Decisions favouring one or the other division are made with the optimisation of investment yield in mind. Companies seek to resolve the contradiction illustrated in our mini-sketch above. For this to happen smoothly, MNC strategists have to have near-perfect knowledge of the market, of current, short-term and medium-term tendencies. In actual fact, of course, they do not. Forecasting errors regularly set MNCs back some distance, at which point they often approach government for various forms of aid. They also demand sacrifices from their workforce in order to keep their business afloat. Small shareholders are also often called upon to pay for such

setbacks, as in the case of shareholders at the perpetually troubled private consortium Eurotunnel.

## COMPANY FINANCIALISATION: THE EXAMPLE OF FRANCE

One of the features of globalisation is the increased financialisation of MNCs. They increasingly resemble financial houses even if a majority of their operations continue to be in industry. They offer a variety of financial services and make significant forays into exchange markets.

Between 1982 and 1989, the share of productive investment in the operations of French corporations fell from 76 to 47 per cent. Their strictly financial assets grew as a proportion of total assets, from 2.9 per cent to 35 per cent. This tendency was further accelerated from 1989 onwards.

French companies have progressively expanded their involvement in French financial markets. By April 1989, they had invested \$45 billion; \$107 billion by April 1992; and \$143 billion by April 1995. In 1993, the big French industrial houses engaged in financial operations worth more than Ffr500 million (about \$85 million) every single day. Such exchange market operations are worth at least five to ten times more than what companies actually need for settling trade contracts.

Has productive investment declined as a result of this growing company involvement in financial markets? Probably. Big companies have a growing tendency to hold significant financial assets. By 1988, 30 companies held more than 40 per cent of all financial assets in France. The strictly financial dimension of capital flows has developed by leaps and bounds. This has created tension in companies between those who depend on industrial activities and those who are more concerned with the 'ledger' that spells out what will be paid out to shareholders in quarterly dividends (Serfati, 1996, in Chesnais, 1996).

There are companies whose industrial operations have run aground (Renault in 1997) while actually increasing their strictly financial profitability. In February 1997, Renault announced the shutdown of its Belgian operations (where more than 100,000 vehicles were manufactured each year); in response, its share price

surged 11.7 per cent upwards on the Paris stock market. This is striking proof of the contradictory development of capital as a whole.

Company accounts determine profit by adding up revenues earned on various types of capital. Profit is the measure of how far a company is able to optimise its total capital holdings over a given period of time. However, as far as the overall reproduction of capital is concerned, things are not so simple. Indeed, financial revenues from various types of money-capital investments are nothing more than the cream skimmed off the surplus value (see glossary) that is created in the productive sector of the economy (Serfati, in Chesnais, 1996; Husson, 1996, 1997).

Loans provided by bankers and money taken in through stock and bond issues can clearly be seen as complements to accumulation. They allow the productive capital cycle to unfold unfettered by serious financial constraints. But they are also pregnant with a number of different conflicts over the sharing out of surplus value created in the productive process. The main quarrel is over how much of this surplus value will, on the one hand, be kept as profit by the company and reinvested, and how much, on the other, will go towards servicing debts (interest) and paying out dividends on securities.

## A BIRD'S EYE VIEW OF FINANCIALISATION AND DEREGULATION

For the last 30 years, the growth of financial markets has been fed in part by the profits big industrial houses have declined to reinvest in production.

Significant proportions of surplus value created in production have been diverted into the financial sphere since the 1980s. We are a far cry from the predictions made by Keynes that rentiers living off their interest would disappear through a process of 'euthanasia' (Keynes, 1936)! Labour and the productive cycle revolve more than ever around the need to satisfy the demands of interest-bearing capital.

After the outbreak of the Mexican crisis in December 1994, IMF head Michel Camdessus let slip, 'Globalised economy without exchange controls makes the world a dangerous place' (*Eco-Soir/Le Soir*, 17 February 1995).

But the IMF has itself pushed for the generalised deregulation of capital flows, in particular through the elimination of exchange controls.

For his part, the head of the investment strategy division of Banque Bruxelles Lambert, Roland Leuschel, declared, 'We are a bit like an airline pilot who knows she is going to crash but whose computer controls no longer respond. The computer follows its own rules, that's what the market is like' (*Le Monde*, 5 April 1995).

We are now beginning to feel the effects of financial deregulation. This deregulation was systematically pursued by the governments of the main industrial powers, the international financial institutions – the IMF, World Bank, Bank for International Settlements – whose policies these governments by and large dictate (which doesn't mean the international institutions don't have some degree of autonomy), and the MNCs.

Currency markets are the segment of the financial markets that have registered the strongest growth. During the 1980s, the volume of transactions increased ten-fold. Yet the main function of currency trading is supposed to be that of providing currency to settle foreign trade contracts. However, the total value of actual trade transactions was not even 10 per cent of the value of foreign currencies traded on exchange markets. According to the latest study by the Bank for International Settlements (BIS), more than \$1,400 billion change hands every day on currency markets (Chesnais, 1996). While there is no disagreement over the amounts traded each day, there are differences as to how much of this corresponds to speculative transactions. Basing himself on BIS studies, F. Chesnais (Chesnais, 1996) says that somewhere between 5 and 8 per cent correspond to transactions linked to the 'real' international economy. For his part, J. Adda (Adda, 1996) says, '95 per cent of the value of transactions carried out on exchange markets correspond to financial operations with no connection to trade in goods and services'. Also basing himself on BIS figures, D. Plihon (Plihon, 1996) says, 'transactions on exchange markets of a purely financial nature account for 50 times more total volume than those linked to global trade in goods and services'. This would mean that less than 2 per cent of the value of all transactions is linked to actual international trade in goods and services!

Finally, Table 4.1 suggests that speculative operations easily account for more than 90 per cent of the value of daily financial transactions.

Table 4.1 Daily value of financial transactions and the total annual value of global exports (\$bn)

A = annual value of daily financial transactions on exchange markets (daily transactions  $\times$  250 business days)

B = total annual value of global exports

Year	A	B	B/A (%)
1979	18,750	1,546	8.25
1984	37,500	1,800	4.80
1986	75,000	1,998	6.7
1990	125,000	3,429	2.66
1994	300,000	4,269	1.42

Source: table assembled by Robert Went (1996, p. 13), based on figures from Piot (1995, pp. 38–9).

The financial markets handle the billions and billions of dollars in capital that move from one country to another everyday. As a result, they have become the policeman, judge and jury of the world economy, which is very worrying given their tendency to see events and policies through the distorting prism of fear and greed. (*Financial Times*, 30 September 1994).

Of course, the journalistic musings of the *Financial Times* do not go far enough. It is significant in itself, however, that such comments should appear in the flagship British financial daily, front-line defender of the capitalist system. It shows that the heads of the main capitalist countries (the G7 or G10) and private financial institutions – with multinational industrial houses, the IMF, World Bank, BIS and GATT in tow – have, to a certain extent, played the role of sorcerer's apprentices. This is why the image of a pilot whose controls do not respond is so apt.

The over-accumulation of capital has been accompanied by a real or potential (in terms of excess productive capacity) overproduction

of commodities. As a result, much of the capital accumulated from new profits is not invested productively. This capital floods into real estate and stock markets for speculation and for merger and takeover operations. For a few years now, there has been huge growth in speculation on currency rates, debt paper and various derivative products.

Table 4.2 Finance expanding more quickly than GDP: Trade and foreign direct investment in OECD countries (1988 compared to 1980)

GDP in OECD countries*	+ 195%
Trade	+ 200%
Financial transactions on exchange markets	+ 850%
Foreign direct investment	+ 350%

\* Provides a reliable index of production levels.

Source: Claude Serfati, in *Alternatives Economiques*, No. 23, first quarter 1995.

Governments and financial institutions have pulled out the stops to get all legal obstacles to the free international circulation of capital removed. Now they worry about the scale of speculative activities, which threaten monetary stability (European Monetary System crisis in 1992), sink major financial institutions into bankruptcy (Barings in Britain and Cosmo in Japan, both in 1995; again in Japan, in 1997 at Yamaichi and 1998 at the Long Term Credit Bank) or plunge entire countries into crisis (Mexico 1994–95 and Thailand, Indonesia and South Korea in 1997–98). Yet they refuse to adopt measures to restrict the free circulation of capital. The BIS reiterated this refusal in its June 1995 report, as did the G7 heads of government following their June 1995 meeting in Halifax, and the IMF/World Bank team during their Washington meeting in late April 1997. The 30 April 1997 edition of the French business daily *Les Echos* ran the following completely contradictory leader:

The Interim Committee of the IMF, the institution's highest decision-making body, gave the green light Monday evening in Washington for the IMF to *promote* and *organise* the liberalisation of capital flows, including in developing countries. (emphasis mine)

The article in question tells us that the IMF's leading body recommended an amendment to its statutes to include the removal of obstacles to capital flows as a specific objective. This led the G24, which brings together Third World countries and non-G10 industrialised countries (see glossary), to express its concerns about the dangers of any hasty liberalisation that would oblige its members to remove exchange controls and investment restrictions. Such restrictions still existed at the time in South Korea and, to a lesser degree, in Chile. In South Korea's case, measures dictated by the IMF and accepted by South Korean officials in December 1997 eliminate these restrictions. As for Chile, it had legislation that discouraged foreign investment for a period of less than one year (see article by Carlos Ominami, Chilean Minister of the Economy between 1990 and 1994, in Urriola, 1996). This legislation was abandoned in September 1998.

## THE MARKET: THE NEW FAITH

Practically all political leaders – whether from the traditional Left or from the Right, from the North or the South – have a quasi-religious faith in the market, especially in the financial markets. Or rather, they themselves are the high priests of this religion. Every day in every country, anyone with a television can observe masses said in honour of the market-god – in the form of stock exchange and financial market reports. The market-god sends his messages through television anchormen and the financial editors of daily newspapers. Today, this does not only happen in OECD countries, but in most parts of the planet. Whether you are in Moscow or Dakar, in Rio de Janeiro or Timbuctoo, you can receive 'market signals'. Everywhere, governments have privatised and created the illusion that the population would be able to participate directly in market rituals (by buying shares) and reap the benefits in accordance with how well one interprets signals sent by the market-god. In actual fact, the small part of the working population that has acquired shares has no say over market tendencies.

The reader will indulge me for a moment as I take a somewhat more humorous approach to this sad state of affairs:

In a few centuries, the history books might say that in the 1980s and 1990s a fetishist cult prospered. The dramatic rise of this cult will perhaps be associated with two heads of state, Margaret

Thatcher and Ronald Reagan. It will be noted that, from the start, this cult had the backing of governments and powerful private financial interests. Indeed, for this cult to gain ground within the population, public and private media found it necessary to pay homage to it day in and day out.

The gods of this religion were the financial markets. Its temples were known as Stock Exchanges. Only the high priests and their acolytes could enter these temples. The faithful were called upon to commune with their market-god on television, in the daily papers, on the radio and at the bank.

Thanks to television and radio, even in the most remote parts of the planet, hundreds of millions of people whose right to meet their basic needs was denied, were also beseeched to celebrate the market-god. In the North, in the papers read by a majority of workers, housewives and unemployed, an ‘investment’ section was published every day, even though the overwhelming majority of readers did not own a single share.

Journalists were paid to help the faithful understand signals sent by the gods.

To heighten the power of the gods in the eyes of the faithful, commentators periodically declared that the gods had sent signals to governments to express their satisfaction or discontent.

The places where the gods were most likely to forcefully express their moods were Wall Street in New York, the City in London, and at the Paris, Frankfurt and Tokyo stock exchanges. To gauge their moods, special indicators were devised: the Dow Jones in New York, the Nikkei in Tokyo, the CAC40 in France and the Bel20 in Belgium.

To appease the gods, governments sacrificed the Welfare State to the stock markets. They also privatised public property.

Why were ordinary market operators given a religious aura? They were neither unknown nor ethereal. They had names, addresses. They were the people in charge of the 200 biggest multinationals that controlled the world with the help of the G7 and institutions such as the IMF, the World Bank and the World Trade Organisation. Governments were no strangers to this situation; from Reagan and Thatcher onwards, they relinquished the means they had of controlling financial markets.

As a result, money could cross borders with not a single cent in taxes being levied. More than \$1,400 billion raced around the

planet every day. Less than 10 per cent of this amount was linked to actual trade in goods and services. More than 90 per cent concerned purely speculative currency trades and money laundering (for drugs, for example).

Newspapers reported on a regular basis that Wall Street had reacted favourably to the increase in unemployment and slowdowns in economic growth. It is difficult to underestimate how much this period in history contributed to the spread of a kind of ideology of death.

So much for the humorous interlude. Let us return to today's unpleasant truths, as portrayed in two examples from the French daily *Le Monde*.

The 9 October 1996 edition ran the following headline on page 17: 'The Dow Jones index momentarily crossed the 6,000-point mark.' The author of the article goes on to say, 'The announcement on Friday that 40,000 jobs had been lost in the US in the month of September—in contrast to analysts' expectations that 160,000 would be created—was greeted with relief by traders.' Further on, 'Since the beginning of President Clinton's term in office, the Dow Jones has nearly doubled, directly contributing to *the feeling of wealth and economic well-being* currently prevailing in the US' (emphasis mine).

In the 8 December 1996 edition, Eric Léser writes, 'December 6 was almost a Black Friday on financial markets. In the end, resistance [sic!] on Wall Street and the release of US November unemployment figures – judged to be satisfactory by analysts – limited the damage' (emphasis mine). What exactly were these 'satisfactory' figures? Further down in the article, Léser tells all: 'The US unemployment rate went up five per cent in November, the number of jobs created (118,000) was less than expected (175,000).'

### **The Bank for International Settlements and Submission to the Markets**

Even institutions with a reputation for being very serious have become steeped in the new religious fervour. The Bank for International Settlements (BIS), for example.

The 1995 BIS report is imbued with market devotion (BIS, 1995).

And I quote: 'If there were any remaining doubts concerning the omnipresent influence of international capital markets, events over

the past year should have put an end to them' (p. 225). Rather than seeking to 'regulate these markets', there is a need to 'maximise the disciplinary power' wielded by the markets. The BIS feels there is no need for governments and the population to know what is going on in the markets in order to control them; rather, it proposes the exact opposite:

For the market [note that henceforward the market is endowed with human attributes] to be able to make correct judgements of government policy, with neither surprises nor brutal corrections, it must have full information not only on current developments but also on the ultimate objectives, mediating factors and economic mechanisms of the policy being pursued. (p. 228)

The report is filled with examples of where 'the market' got it wrong, but in general duplicitous governments are held responsible. True, the BIS does occasionally criticise 'the markets' for their poor judgement.

Take the case of Mexico, for example. 'As for Mexico, over a long period the markets did not take into account the deterioration of the country's external position. Suddenly, however, they withdrew, to disastrous effect not only for Mexico, but also for a number of developing economies.' The BIS, like the World Bank and IMF, had sung the praises of Mexican government policy; with respect to both its supposed ability to resolve the external debt problem and its policy of economic modernisation through privatisation and deregulation of the labour market. To add insult to injury, the BIS shows not the slightest self-criticism and, as if it were some kind of revelation, points out what any serious observer could have said before the crisis: 'If Mexico was finally confronted with a number of difficulties, it was because of rising external debt and decreased international competitiveness' (p. 226).

I had pointed this out in no uncertain terms before the crisis broke. I had shown that debt was increasing in spite of the fact that over ten years Mexico had paid back much more than its original debt; and that capital had begun to leave the country beginning in March 1994, at a time when most commentators were still waxing eloquent about the 'Mexican miracle' (Toussaint, 1994; see also Husson, 1994).

When the financial crisis hit in 1997, comments from leaders of the main industrialised countries and the multilateral institutions

they control went in the same direction. They roundly denounced the head of the Malaysian government for criticising big investors on the financial markets. Simultaneously, they called for neo-liberal measures to buoy up these very same big financial players.

## THE DIFFERENT STAGES OF FINANCIAL DEREGULATION

Right up until the end of the 1970s, financial and monetary systems were strictly limited on the national level. Nevertheless, the birth of the eurodollar (see glossary) in the 1960s was a major event, especially given the key role of the eurodollar as a factor in the Third World debt crisis (Adda, 1996; Chesnais, 1996; Norel and Saint-Alary, 1988). (See Chapter 7 on this question.)

The second key event in financial internationalisation began in August 1971, when US President Nixon put an end to the Bretton Woods system by discontinuing the dollar's convertibility into gold. This led to the emergence of floating exchange rates, which significantly broke down the barriers between exchange markets (de Brunhoff, 1996, in Chesnais).

From 1979 onwards, governments in the leading industrialised countries effected measures that progressively phased out controls on capital flows abroad. In other words, they liberalised – or opened up to the outside – national financial systems.

This was done in three stages:

1. full opening up of exchange markets;
2. opening up of bond markets;
3. opening up of stock markets (1986).

In the 1980s, all forms of administrative control over interest rates, credit and capital flows were progressively eliminated. This was the course chosen by the main leaders of the industrialised world, leading to an orderly retreat of governments faced with the powerful unfolding dynamic of financial integration. One by one, governments threw in the towel when confronted with the huge new sums of capital flooding across borders; they resigned themselves to making the best of this new reality that they had helped create. They engaged in fierce competition to attract capital in their direction; to this end, they abandoned most taxes on capital gains.

## THE MAIN PLAYERS ON FINANCIAL MARKETS

But who, after all, are the main players on financial markets?

The biggest hitters are a few dozen of the largely American and British private pension funds, mutual funds and other types of investment funds, the big insurance companies and the big multinational banks. These players are known as 'institutional investors'. Throw in a few dozen big multinational industrial houses, and the list is complete.

Indeed, the list is quite short.

A research group within the IMF carried out a confidential study to determine who had been the main players in the attacks on the European Monetary System in the summer of 1992. They found them to be quite small in number – 30 to 50 banks and a handful of security brokerages. These control the key currency markets. During the 1992 crisis, 43 per cent of transactions in London and 40 per cent of transactions in New York were carried out by the ten biggest banks in these two markets. The findings of this IMF study were never related at a press conference. François Chesnais writes,

The Bank of France and the German Bundesbank closed ranks to spend 300 billion dollars in defence of the European Monetary System during the summer of 1992. But this sum was of little significance compared to the amounts that those determined to force a change in exchange rates – and pocket major profits in the process – were able to mobilise. (Chesnais, 1994)

In addition to speculation on exchange markets, another type of operation has emerged: derivatives (Beniès, 1995). The spring 1995 Barings bankruptcy drew public attention to this type of operation. Even if they are called 'investment products', they have nothing to do with production. They are purely speculative in nature.

There has been a spectacular boom in derivative trading. In 1986, \$500 billion were involved; the total was \$5,345 billion in 1992.

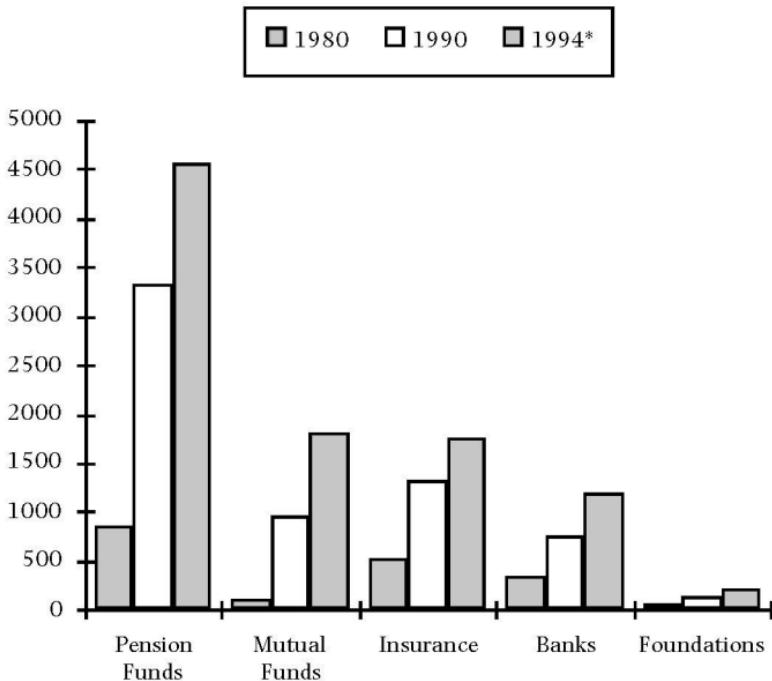
Among the main players on financial markets are private pension funds. Their financial assets were worth \$4,570 billion in 1994. To achieve the desired result against a strong currency, it is enough that they devote 10 per cent of total assets in a concerted one-off speculative operation.

### The Changing Face of Financial Investment 1980–94

As can be seen in Figure 4.1, banks are no longer the main players on financial markets. They have been hugely outstripped by pension funds, mutual funds and even insurance companies.

To whom do pension funds belong? Do they belong to a section of the working population that, through investing its savings, has become an integral part of the capitalist class? Certainly not. As Michel Aglietta has pointed out, pension funds are not 'workers' property, but rather the property of the capitalist class' (Aglietta, 1976).

Pension funds and other institutional investors are not oblivious to industry. A significant portion of their massive financial holdings is held in the form of company stock. The size of their share in a



\* End of third quarter.

Figure 4.1 The evolution of financial assets by investor type, 1980–94

Source: Mérieux and Marchand (1996, p. 269) in Chesnais (1996, p. 27)

company's stock varies, but it is usually large enough to have definite influence over the decisions and strategies of the industrial concerns in question.

Having bought up company stock on the various stock markets, institutional investors carry tremendous weight in the overwhelming majority of MNCs. To such a degree, in fact, that they can have a decisive say over what these MNCs can or cannot do.

Institutional investors have a well-deserved reputation, according to a Brussels operator. They are often responsible for major movement at the Brussels exchange, he says. When they are unhappy, they sell and go elsewhere in Europe. And this has an immediate impact on share prices. (*Eco-Soir*, economic supplement to the Belgian daily *Le Soir*, 17 February 1995)

Institutional investors demand quarterly dividends that are at least on a par with the rate of interest. Fearful that pension funds and other institutional investors will sell off their shares, companies often decide to tone down productive investment and step up efforts aimed at obtaining short-term profit.

Not that those in charge of industrial houses are any worse for wear. The president of Elf Aquitaine, for example, declared, 'Share prices are a measure of a company's virtue.' A few years later, this same president, Loïc Le Floc-Prigent, was under investigation by the courts and arrested for embezzlement. He apparently had his own very special notion of 'company virtue'.

Financial market players are driven by an inhumane logic. 'A drop in the unemployment rate is now seen as a precursor to inflation, and therefore of a drop in the yield of financial investments', notes Claude Serfaty. He adds, 'The social cost of keeping these rentiers happy is very high indeed.' Of course, this applies to the North, South and East.

### The Case of George Soros

In general, the identity of companies and multi-billionaires that speculate is a well-kept secret. This creates an aura of mystery and perpetuates the illusion that an untold mass of anonymous citizens determine what happens on the world's markets. In fact, nothing could be further from the truth.

George Soros is an exception to the secrecy rule. The Hungarian-American Soros heads the Quantum Fund and was one of the driving forces behind the attack on the European Monetary System in the summer of 1992. He pocketed \$1 billion by speculating against the British pound. Like a gambler, he also loses from time to time – for example, in January 1994, when he lost \$600 million. In 1995, he published a book in which he describes how he has run his operation in strict accordance with the relevant laws (Soros, 1995). In this interview-style book, which he commissioned, he raises the alarm over the dangers of unrestrained deregulation. The book is an instructive read. On the occasion of its release in France, Soros declared:

Many people feel that markets are the best way to share out resources and create a balanced situation. I believe the opposite is true. I do not believe in market perfection. Measures have to be taken to stabilise the market, otherwise there will be dangerous developments, especially since imbalances are cumulative. I feel markets aren't sufficiently monitored and that there should be tighter regulations. Broadly speaking, market mechanisms have come to play too great a role in our societies. I am not a fan of *laissez-faire*. (*Le Monde*, 2 November 1996)

Such declarations did not hold Soros back from playing – according to the Malaysian prime minister – a vanguard role in attacks on various Southeast Asian currencies, the Thai bhat and Malaysian ringgit in particular. According to the Mexican daily *El Financiero* (28 July 1997), on 26 July 1997 Malaysian Prime Minister Mahathir Mohammed openly accused Soros of secretly organising speculative attacks which, from July onwards, led to a depreciation in the value of Southeast Asian currencies. Soros denied any such involvement.

*El Financiero* relates other declarations from Mahathir:

He called on the international community to consider the speculative attacks on Southeast Asian currencies a crime. 'This will happen again, that is why we consider it to be a crime,' he said. He said that as long as the international community did not take steps against such activities, the currencies of developing countries would continue to be sabotaged and their citizens would continue to live in poverty.

In a *Financial Times* op-ed piece run on 1 January 1998, Soros talks about the general implications of the Southeast Asian crisis. He makes a number of pertinent remarks:

The international financial system is suffering from a systemic crisis but we have difficulties recognising this. The elimination of fixed exchange rates has unleashed an uncontrollable process that has surpassed people's worst fears, including my own. The rescue packages assembled by the IMF are not producing any results. ... The concerned countries have too much debt.... The private sector is incapable of allocating international credit in the right doses. It provides too much or too little. It doesn't have sufficient information for making balanced judgements. Above all, the private sector is not concerned with maintaining macro-economic equilibriums in the borrower countries. Its goal is maximising its own profits and minimising risk.

A few days later, Soros was the new South Korean president's guest of honour. He said that, after withdrawing his South Korean investments in 1997 (which helped provoke the crisis), he was planning new investments in the country. This is the way he cynically applies the rule of 'maximum profit-minimum risk'. In response to a journalist's question over who had been right – the welcoming South Korean president or the angry Malaysian prime minister – he replied in an equally cynical manner, 'One or the other is clearly mistaken' (*International Herald Tribune*, 3 January 1998).

To be sure, Soros and his Quantum Fund are not omnipotent. But they often play a key role in times of crisis by spearheading speculative attacks. At times, Soros blazes a trail for the really big players – the pension funds, mutual funds, insurance houses and other institutional investors.

# Globalisation and the Growing Debt Burden

During the 1980s and the first half of the 1990s, there was a meteoric increase in debt the world over. The share of Third World (and ex-Soviet Bloc) debt in this overall debt has dropped. In 1995, total Third World external debt was \$1,940 billion (OECD, 1996), while the US public debt alone was \$4,900 billion. According to the OECD, US public debt accounts for 39 per cent of total OECD member country public debt. The total public debt of European Union (EU) member countries is more than \$4,200 billion.

What has not declined, however, are the sacrifices imposed on the majority of citizens in all countries in order to service these debts.

The phenomenon of globalisation described thus far and the debt problem are inextricably linked. The process of globalisation began in earnest in 1980 with the first wave of deregulation; the debt crisis broke out around the same time, or perhaps even in October 1979 with the about-turn in US Federal Reserve policy under Volker (see Chapter 7). The two developments were tightly intertwined. Post-1982 debt-crisis management was very much part of globalisation; it was an integral part of the realignment in the relationship of forces between countries of the North and South. The countries of the South entered a phase of heightened dependence.

Debt securitisation (see glossary) is another key element of the link between the way in which the Third World debt crisis has unfolded and other globalisation-related phenomena.

This securitisation concerns a significant part of OECD country public debt along with both the external and internal debt of Third

World countries – at least for those that still have not been excluded from international financial markets. Securitisation is a key feature of globalisation.

## WHAT IS SECURITISATION?

The term is used to describe the new place of privilege occupied by security issues in market activity. Security issues are traditional international bonds issued by a foreign borrower on the financial markets and in the currency of a given lender country. Or they may be Euro-bonds denominated in a currency other than the market for which they are issued. Or they may be international stocks. In addition, former bank debt has been converted into tradable securities – thus freeing banks from their responsibilities to developing countries in the wake of the debt crisis.

The sharing out of risk is the main feature of this securitisation trend. In numerical terms, above all, since the risk of loan default is not borne solely by a small number of multinational banks closely linked to one another. In qualitative terms, too, since each element of risk linked to a given issue can itself be the object of another financial instrument that can also be traded on the markets. Negotiable futures contracts exist, for example, to hedge against currency and interest rate fluctuation; there are also options, which are negotiable on the market; the list of such products goes on and on (Adda, 1996).

The growth in securitisation is clearly illustrated by Table 5.1.

There was a strong increase in financial assets between 1980 and 1992. The total was multiplied by 3.5, from \$10,706 billion to \$35,483 billion. As shown in Table 5.1, international and government bonds posted the strongest growth, even if in absolute terms currency and stocks remain on top.

The big financial players invest a growing share of their holdings in the government bonds of the major industrialised countries and of those Third World countries that have achieved a certain level of industrial development. These Third World countries, in fact, have the highest external debts in absolute terms.

Here are the 1996 OECD figures for the most indebted Third World countries in absolute terms: Mexico, \$134.4 billion in 1995; China, \$125.3 billion; Thailand, \$116.3 billion; South Korea, \$113.5

billion; Indonesia, \$111.5 billion; Brazil, \$111 billion; India, \$96.4 billion; Argentina, \$80.1 billion; Turkey, \$67.8 billion.

Table 5.1 Growth in financial assets, 1980–92 (\$bn and %)

Asset type	1980*	%	1991–92	%	RG**
Currency	4,839	43	11,288	32	1
International bonds	207	2	1,465	4	13
Government bonds	1,934	18	8,707	25	9
Company bonds		9		10	7
– bank	487		1,856		
– non-bank	489		1,844		
Stocks	2,750	28	10,323	29	6
TOTAL	10,706	100	35,483	100	5

\* Expressed in 1992 dollars.

\*\* RG = average annual real rate of growth in %.

Source: McKinsey, 1994, in Chesnais, 1996, p. 25.

Table 5.2 Share of financial markets in foreign debt (\$bn)

Country	Total debt	Owed to Financial Markets	%
Mexico	134.4	73.8	54.9
China	125.3	67.4	53.7
Thailand	116.3	95.2	81.9
South Korea	113.5	102.4	90.2
Indonesia	111.5	48.3	43.3
Brazil	111.0	73.4	66.1
India	96.4	28.3	29.4
Argentina	80.1	50.6	63.2
Turkey	67.8	38.7	57.1
Total	956.3	578.1	60.5

Source: OECD, *Quelques aspects de la dette extérieure à la fin de 1995*, Paris, 1996.

It is worth noting that these figures actually underestimate debt in a number of countries. For example, our research, based on studies carried out by various academics, shows that Mexico's external debt at the end of 1995 was actually \$164.6 billion. If you include the government internal debt paper held by non-residents, worth \$11.6 billion dollars, you arrive at a total of \$176.2 billion

Total Third World debt  
\$1,940 billion (in 1995)

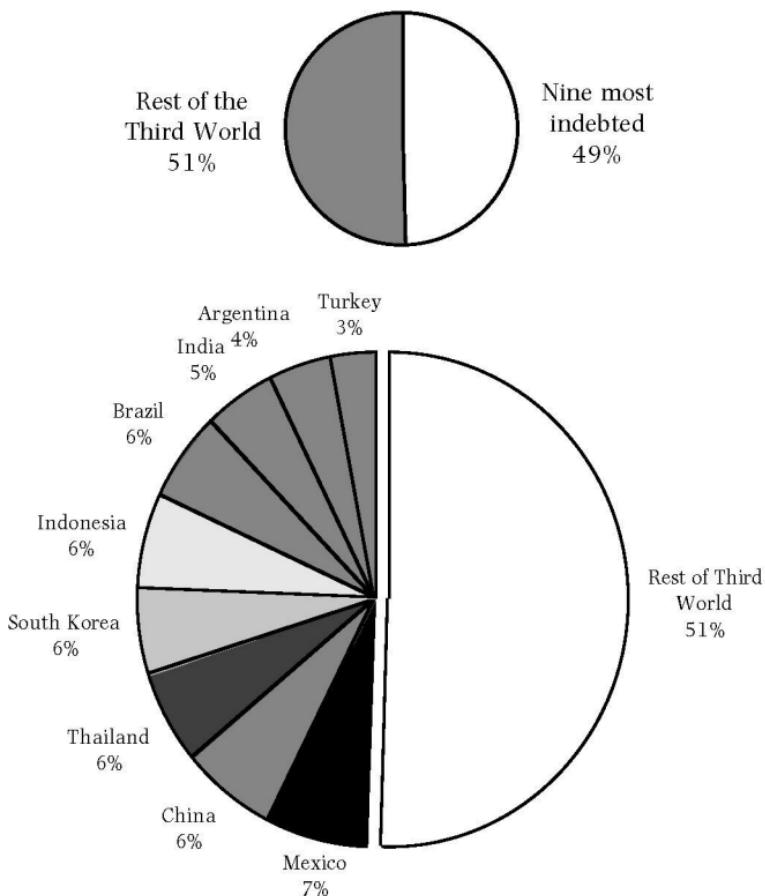


Figure 5.1 Share of nine most indebted Third World countries in total Third World debt, 1995

Source: Infographie Philippe Tombal, Eric Toussaint, 1997.

(quoted in Macias Cardone, 1997, p. 8). But since I do not have this kind of independent research for all the countries in question, I have used OECD figures. Suffice it to say that they should be handled with some caution, especially in the case of East and Southeast Asia, whose countries' debt has increased significantly since the second half of 1997. For example, in early January 1998, South Korea's external debt was calculated to be somewhere in the vicinity of \$160 and 200 billion.

Of the nine countries in Table 5.2, seven have more than 50 per cent of their debt held by the financial markets.

A growing number of Third World countries issue debt paper, in the main financial markets of the highly industrialised countries, in their own domestic securities exchanges, and even through private and public banks present on their soil. Most of these issues involve debt instruments that have the advantage of being extremely liquid; the purchaser can offload them when necessary at a moment's notice to a host of players on the secondary markets.

# The Debt Crisis in Historical Perspective

## PUBLIC DEBT AND INTERNATIONAL CREDIT AND THE ORIGINS OF INDUSTRIAL CAPITALISM: FROM THE FIFTEENTH TO THE NINETEENTH CENTURIES

In the footsteps of Adam Smith and David Ricardo (Smith, 1776; Ricardo, 1817), Karl Marx (Marx, 1867) spent considerable time studying the creation of an international credit system and the role of public debt in capitalist accumulation on a world scale. In the first book of *Capital*, he devotes several pages of spirited analysis to the subject.

In chapter 31 (Penguin edition), he particularly focuses on colonial pillage, public debt and the international credit system as the sources of primitive accumulation that made industrial capital prosper the world over.

On the role of colonial pillage, it is worth quoting *Capital*. Thankfully, Marx's analysis breaks with the *Communist Manifesto*'s presentation of capitalism as a civilising force in the periphery:

The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the indigenous population of that continent, the beginnings of the conquest and plunder of India, and the conversion of Africa into a preserve for the commercial hunting of blackskins, are all things which characterize the dawn of the era of capitalist production. (ch. 31, p. 915)

In the same chapter, Marx coins a phrase that makes a dialectic link between the oppressed in the centre and those in the colonies: 'In fact the veiled slavery of the wage-labourers in Europe needed the unqualified slavery of the New World as its pedestal' (ch. 31, p. 925). He concludes the chapter: 'capital comes dripping from head to toe, from every pore, with blood and dirt' (ch. 31, p. 926).

According to Marx:

The different moments of primitive accumulation can be assigned in particular to Spain, Portugal, Holland, France and England, in more or less chronological order. These different moments are systematically combined together at the end of the seventeenth century in England; the combination embraces the colonies, the national debt, the modern tax system, and the system of protection. (ch. 31, p. 915)

He devotes several pages to colonial pillage and then examines the question of international credit:

The system of public credit, i.e. of national debts, the origins of which are to be found in Genoa and Venice as early as the Middle Ages, took possession of Europe as a whole during the period of manufacture. ... The national debt, i.e. the alienation [*Veräusserung* = alienation by sale] of the state – whether that state is despotic, constitutional or republican – marked the capitalist era with its stamp. ... The public debt becomes one of the most powerful levers of primitive accumulation. ... Along with the national debt there arose an international credit system, which often conceals one of the sources of primitive accumulation in this or that people. ... A great deal of capital, which appears today in the United States without any birth-certificate, was yesterday, in England, the capitalised blood of children. (ch. 31, pp. 919–20)

Twentieth-century Marxist scholars have expanded on this question of global primitive accumulation (Amin, 1993; Gunder Frank, 1971; Mandel, 1962, 1968). Ernest Mandel's 1968 article 'L'accumulation primitive et l'industrialisation du Tiers Monde' ('Primitive accumulation and the industrialisation of the Third World') provides a particularly interesting summary. On the basis of calculations made by other researchers, he estimates that, between

1500 and 1750, some 1 billion English pounds (gold sovereigns) were transferred from the colonies to Western Europe. ‘This is more than the total value of capital invested by 1800 in all European industrial companies’ (Mandel, 1968, pp. 150–1).

## DEBT CRISES IN THE NINETEENTH CENTURY AND EARLY TWENTIETH CENTURY

### **Semi-Periphery and Financial Dependence**

Use of foreign debt as a weapon of domination played a key role in the policies of the main capitalist powers in the late nineteenth and early twentieth centuries towards subordinate powers that could have themselves become central capitalist powers. The Russian Empire, the Ottoman Empire and China took in foreign investment to deepen capitalist development. They took on heavy debts in the form of government bonds issued in the financial markets of the main industrial powers. In the cases of the Ottoman Empire and China, difficulties meeting debt payments progressively led them to be placed under foreign tutelage. European officials set up and oversaw special debt repayment accounts in these countries. They had virtual control over government revenues, which they ensured went towards fulfilling international debt obligations. This loss of financial sovereignty led the Ottoman Empire and China to negotiate their debt away against port, railway and trade concessions. Russia, facing the same fate, chose another path after the 1917 revolution: it repudiated all debts taken on by the Czarist dictatorship (Adda, 1996).

Unlike China, the Ottoman Empire and Russia, Japan did not take on foreign debt. As such, it is the only example of successful capitalist development in the late nineteenth century by a country from the ‘semi-periphery’. Japan experienced genuine autonomous capitalist development in the wake of a bourgeois revolution (1868) which, among other things, prevented Western finance from taking hold on its soil while eliminating obstacles to the circulation of domestic capital. By the late nineteenth century, Japan had emerged from its autarchy of lore to become a rapidly expanding imperialist power. Lest there be any misunderstanding, the point here is not to suggest that the absence of foreign debt was the determinant factor in Japan’s successful run at capitalist development. This is not the place to go

into all the factors that enabled Japan's shift from feudalism to capitalism (see Anderson, 1976).

### **Latin American External Debt Crises in the Nineteenth and Twentieth centuries**

Since gaining independence in the 1820s, the countries of Latin America have gone through four debt crises (Vilas, 1993).

The first such crisis took place during the 1820s, while the different countries were attaining independence. The second one took place in the 1870s. During this crisis, Venezuela refused to meet its payments and entered into direct conflict with US, German, British and French imperialism. In 1902, these countries sent a multilateral naval force to blockade the port of Caracas. Thanks to this gunboat diplomacy, Venezuela was forced to resume debt payments; these debts were not paid off until 1943 (Medina, 1996).

This chapter will provide an analysis of the third Latin American debt crisis, which took place in the 1930s. The fourth crisis, in the 1980s, will be taken up in a following chapter.

Is there a link between the outbreak and deepening of these four crises, on the one hand, and the long waves of capitalism? The long waves of capitalist development since the early nineteenth century have been analysed by a number of authors – among whom Ernest Mandel, who made a major contribution, especially with respect to the role of political factors in the development and conclusion of long waves (Mandel 1971, and especially 1978). Much work remains to be done in this line of study.

The link between debt and long waves certainly makes for an interesting subject of research. Indeed, at first glance, there seems to be a very strong link:

- between the first modern crisis of commodity overproduction (1826), which opened the door to a long wave of slow growth (1826–47), and the first Latin American debt crisis (which began in the 1820s);
- between the long depression of the industrialised economies from 1873 to 1893 and the 1870s Latin American debt crisis;
- between the 1930s worldwide depression and the Latin American debt crisis. This time, however, the crisis opened the way for higher levels of growth than in the crisis-ridden

economies of the centre. One key reason for this growth was the decision by 14 Latin American countries to suspend debt payments;

- between the long wave of slow growth from 1973–74 onwards and the current Latin American (and Third World) debt crisis.

### The 1930s Latin American Debt Crisis

In 1931, crisis struck after a decade in which substantial foreign loans had been made to Latin America, primarily by the United States. In fact, following the First World War, the US had replaced Britain as the biggest exporter of capital to Latin America. Britain held a significant portion of Brazilian and Argentinian debt, but the US dominated the rest of the continent. Due to war reparation payments it had to make after the First World War, Germany was a diminished financial power. Yet, along with Britain, it had been Latin America's main creditor until the early twentieth century.

At the time, the Latin American debt was made up of securities and bonds issued on the financial markets of the main capitalist powers. This is similar to the situation in the 1990s, and unlike that of the 1970s and 1980s, in which debt largely took the form of bank loans. A number of factors explain the increased supply of loans from Europe and the US after the First World War: Latin America's ruling classes inspired enormous confidence, guided as they were by a positivist philosophy of progress; there were great hopes in the development of the continent; huge tracts of land had been devoted to export-oriented production, especially of foodstuffs; massive infrastructure was developed: ports, railways and electricity; and finally, progress in intercontinental transport afforded greater integration into world markets. In the 1920s, investment boomed in the continent's three biggest economies: Brazil, Argentina and Mexico. This investment was financed by debt paper issued on US and European markets. These countries accumulated huge debts; but all concerned – lenders, borrowers, financial market operators – were convinced that exports would indefinitely continue upward, providing for solid growth and regular debt service payments. The same reasoning held sway in the 1970s (see Chapters 7 and 9).

It is worth noting that, in 1914, half of industrial exports from the imperialist centre went to countries that primarily produced and exported foodstuffs and raw materials. A fundamental change has

taken place from at least as far back as the 1970s. Imperialist countries largely export to one another.

In 1914, half of the periphery's exports went to only four countries of the centre: Britain, Germany, France and Belgium. If Italy, Japan, the US and Austria-Hungary are included, 70 per cent of the periphery's exports at the time are accounted for.

In 1928, investment flows slowed down considerably due to the saturation of financial markets by Latin American securities. Very soon after the 1929 stock market crash, no more such paper was issued. With the financial tap closed tight, Latin American countries could no longer meet their debt obligations.

### **The Suspension of External Debt Payments by 14 Latin American Governments**

On 1 January 1931, the Bolivian government announced it would stop its debt payments. A number of other countries followed suit (Vilas, 1993; Ugarteche, 1997). By 1932, 12 countries had partly or fully suspended debt payments; by 1935, there were 14.

The decision to suspend payment was based primarily on the fall in the price of exported products (Fishlow, 1985) and on the drying up of investment from imperialist countries (see above).

There is a striking contrast with the situation 50 years down the road. One-third of all Latin American countries unilaterally suspended debt payments in the 1930s. In general terms, this decision proved to have been the right one. Most of the countries that ended debt payments experienced renewed economic growth in the 1930s in spite of the halt in foreign lending. Following the Second World War, the multilateral world trading system was put back on its feet; yet this did not reopen private capital markets to Latin American borrower countries. Alternative channels were put in place at Bretton Woods in 1944. Multilateral government loans took the place of financial markets. It was only 20 years later, in the 1960s, that private banks in the centre began lending directly to Latin America.

For a while, then, Latin American countries kept the international financial system at arm's length. Even those countries that had never stopped debt payments realised it was unlikely that global financial flows could work in their favour. Financial disarray in the US itself heightened such feelings. Furthermore, the war between the main

imperialist powers (1940–45) meant that the main lenders (Britain and the US) could not muster the additional strength to recover their unpaid Latin American debts by force.

Although a few countries that repudiated their debts could have met their payments, they determined that the domestic social cost would have been too high. Thanks to the suspension of payments, the countries concerned were able to use these considerable financial resources to pursue a policy of economic expansion. If they had continued to service their debts, they would most certainly not have been able to implement exchange controls and protectionist policies against a variety of products from the North. These latter measures led to real development thanks to a process of 'industrialisation through import substitution' (see glossary). Countries produced domestically many of the items previously imported from the North.

If these countries had not suspended foreign debt payments, they would not have been able to undertake the wide-ranging public works programmes which were to play a key role in the region's economic recovery. Interestingly enough, a variety of very different political regimes pursued this line of action (Vilas, 1993). As Carlos Vilas has noted, however, such converging policies were not part of some preconceived plan. Only later, especially with the creation of CEPAL (Comisión Económica Para América Latina – Latin American Economic Commission), did industrialisation through import substitution become part of a common strategic vision. This approach replaced that of export-driven industrialisation (Vilas, 1993).

### **Debt Repudiation and Economic Recovery**

The following question must now be asked: How closely is economic recovery linked to debt repudiation?

A study by David Felix (Felix, 1987) compares the evolution between 1929 and 1939 of five countries, on the one hand, that totally repudiated their debts (Brazil, Colombia, Chile, Mexico and Peru) and Argentina, on the other, which only repudiated a part of its debts. The study shows that the five showed better economic results than Argentina.

Whether total or partial, repudiation led to a recovery of production in the countries concerned.

Between 1929 and 1939, GNP in Brazil, Colombia and Mexico rose more quickly than in the US, France and Canada. After 1932,

industrial growth in Mexico, Colombia and Chile was stronger than in Argentina.

After the Second World War, the countries that had suspended external debt payment entered into negotiations with the imperialist countries and obtained substantial debt reductions along with payment facilities.

Argentina's approach, however, was not rewarded by the imperialist countries. Argentina's main economic partner in the North was Britain, which had obtained credit from Argentina to pay for products Britain needed for the war effort (Vilas, 1993). Yet after the Second World War, and with help from the US, Britain pursued a policy that knocked off only a marginal portion of Argentina's debt (for a detailed description of this episode, see Olmos, 1990).

### **The US Attitude to Debt Repudiation**

The US adopted an attitude of tolerance towards the 14 Latin American countries that unilaterally suspended debt payments. It was not to be so lenient 50 years later; indeed, the US decided to pull out all stops to prevent a repetition of the 1930s. Backed by the other G7 countries, the Americans went on the offensive with a number of initiatives in the wake of the 1982 Mexican crisis. They instituted the Baker and Brady Plans in close succession (Bournay, 1994). US policy-makers had concluded that the American attitude in the 1930s had paved the way for too much autonomous economic development in a number of countries in their traditional sphere of influence. This time, the US rejected cancellation and dealt with debtor countries on a case-by-case basis. This, after all, is the stuff world leaders are made of.

At a conference on external debt at Bern in 1985, Henry Kissinger declared:

There is no painless way in which indebted countries will be able to resolve their critical situation, but we should suggest some amendments to the IMF adjustment programme. The solution will require some sacrifice; I prefer that indebted countries fulfill their external obligations to debtors with real assets, through a handover of public property. (quoted in Olmos, 1990)

## BOX 1 NICHOLAS BRADY PICKS UP A PERUVIAN COMPANY FOR A SONG

### **A Former US Secretary of the Treasury Goes Offshore**

Former US Secretary of the Treasury Nicholas Brady authored the Brady Plan for putting a lid on the Latin American debt crisis (Bournay, 1994). Did he deserve his early retirement? How can someone with such business acumen remain on the sidelines? As one of the most powerful officials in the US administration in the 1980s, he shone in his job as defender of the interests of the US and the capital-holding sectors of the population. Yet now, unabashed, he has turned to defending his own personal affairs. In 1994, with the money set aside from a generous and well-earned government salary, he created (with his own private company, Darby Overseas, set up a year before with his main adviser at the US Treasury, Hollis McLoughling) an international holding society in one of the most well-known offshore tax havens in the world, the Cayman Islands (just a stone's throw from the American coast). The Cayman Islands are home to only 30,000 inhabitants; yet curiously enough, there are 20,000 businesses registered there. Apparently, Brady is not exactly tripping over himself to ensure that the US Treasury receives its due in taxes!

Brady's company is called International Financial Holding (IFH). Soon after its creation, IFH took over the fourth biggest Peruvian bank, Interbank – which, until then, had been state-run. Interbank was privatised in the final phase of the aptly named Brady Plan. As if this were not enough to set the scandal mill turning, the bank is apparently implicated in laundering proceeds from the cocaine trade. Among the other illustrious figures at Darby Overseas can be found one D. Marx, Argentinian Finance Under-Secretary between 1976 and 1981. Marx was implicated in the scandal over debt contracted by the Argentinian dictatorship (Olmos, 1990). Another heavyweight at Darby Overseas is the former Peruvian Minister of the Economy, who heads the private Mexican–Peruvian consortium that snapped up Aeroperu.

When he conducted American financial policy in the 1980s, Brady gave his name to the plan that led to the signing of a number of bilateral agreements between US authorities and Latin American governments on debt rescheduling and reduction. The privatisation of state-owned firms was one of the central

components of the Brady method. The method has won over the IMF and World Bank, who have since applied it the world over. Indebted countries pay back debts by selling off entire sections of their industrial apparatus, communication firms (telecommunications, airlines, ports, and so on) and banking system.

Apparently never one to be lacking in chutzpah, Brady threw in a further twist in the case of Mexican debt. The Mexican authorities were forced to buy US Treasury bonds as a guarantee for new loans from private banks in the North and from the IMF and World Bank. In other words, among other methods for financing its gargantuan debt, the US obliges Mexicans to loan it money through the purchase of US Treasury bonds. Thanks to this loan to the United States, the Mexicans are authorised to borrow on international markets to finance debt repayment! Through it all, the Mexican debt has risen from \$95 billion in 1982 to nearly \$130 billion in 1994 and more than \$170 billion in 1997.

Meanwhile, members of the Mexican ruling elite have not failed to cash in on all the myriad financial transactions and privatisation sell-offs. Indeed, by 1996, 24 Mexican families had joined the ranks of the world's 100 wealthiest families, breaking all records of speed – and greed. These 24 families own the means of production responsible for creating 14 per cent of the country's GDP. At the same time, some 35 million Mexicans live on less than \$1 per day. Not for them, retirement to a dream home on the Cayman Islands!

The 1997 UNDP annual report reveals that the richest Mexican owns more wealth than the total annual wages of the poorest 17 million Mexicans taken together.

Source: *Financial Times* and research carried out by Michel Chossudovsky and Eric Toussaint.

# The Third World Debt Crisis in the 1980s and 1990s

What was the origin of the crisis that began in August 1982?

Why did the North's private banks, the IMF, World Bank and the governments of the most industrialised countries encourage the countries of the South to take on so much debt?

Were they aware of the impending dangers?

How did the private banks deal with the crisis?

How did the IMF and World Bank grow stronger even though the crisis could well have weakened them?

Why did the South's governments and companies take on so much debt? Was there a valid reason or were they simply corrupt and thirsting recklessly for short-term profit and personal enrichment?

Is the South really paying back its debts?

In the 1930s, 14 Latin American countries – including the most powerful ones – unilaterally suspended foreign debt payments. Why have the countries of the Third World not followed their example this time?

Why have most, if not all, governments of the South agreed to pay off debts for which they are very often not responsible? Do they have a vested interest in doing so, or rather is there no other choice?

What does interest (rent) payment on borrowed money represent? Is it merely another way in which wealth is transferred from the South to the North? Or rather, are things more complex? Is it a transfer of the surplus produced by workers and small producers in the South to the holders of capital in the North and South, with the South's governments picking up a commission in the process?

Most countries of the South have entered a new cycle of heightened dependence. Has the handling of the debt crisis by the North's centres of power been responsible for this state of affairs?

What is the origin of the World Bank and IMF? How have they evolved since being created in the heat of the 1944 Bretton Woods conference?

What is the nature of the structural adjustment programmes imposed on the overwhelming majority of Third World and former 'socialist' countries?

Is there a link between the debt crisis, adjustment policies and crises of the type seen in Rwanda (1994) and Algeria?

This is the series of questions for which the following chapters will seek to provide some answers. The stakes are high, since the very well-being of the majority of the world's population has been affected by the debt crisis and structural adjustment policies.

## THE DEBT SURGE OF THE 1960s AND 1970s

Between 1961 and 1968, the Third World's total external debt rose from \$21.5 billion to \$47.5 billion (Mandel, 1972).

Between 1971 and 1980, the Third World's total external debt was multiplied by eight – from about 70 to more than \$560 billion (see footnote).

Yet both the media and the international financial institutions themselves only started talking about the Third World debt crisis after August 1982 – when the Mexican government announced that it would no longer be able to meet its regular external debt payments.

This created serious problems for the international financial system, especially for the North's private banks. From that point on, there was talk of a Third World debt crisis.

Yet the crisis had its origins much earlier on.

1. The different international bodies (World Bank, IMF, OECD, UN Secretariat) regularly publish reports on debt, but there are often significant differences between their figures. These differences stem from (1) different methods of adding up incomplete available figures; (2) differences in the nature of debt taken into consideration; (3) different sample countries. For example, in its 1983 report, the OECD estimated that total Third World debt was \$552 billion in 1982, while the World Bank calculated it at \$596 billion. Subsequently, the OECD changed its method of calculation to include short-term debt. As a result, its figure for 1982 jumped from \$552 billion to \$820 billion in its following report. The OECD changed its method of calculation again in its 1990 report, further boosting the 1982 Third World debt figure to \$854 billion. For each year in the 1980s, there is a difference of at least \$100 billion between IMF and OECD figures! See Norel and Saint-Alary, 1988.

## THE BIRTH OF THE EURODOLLAR MARKET AND THE ORIGINS OF THE DEBT CRISIS

In the 1960s, a growing number of banks operating outside the US, especially in Europe, began to accept deposits and provide loans in dollars. This helped absorb and recycle the huge quantity of dollars circulating around the world as an instrument for international payments (Adda, 1996, vol. 1, p. 94 and after; Chesnais, 1996, p. 14; de Brunhoff in Chesnais, 1996, p. 47; Norel and Saint-Alary, 1988, p. 41 and after). Eurodollars were dollars held on account by banks with operations centred outside the US. This newcomer to the financial markets signalled the beginning of the deregulation of capital flows, since the banks in question were not subject to the control of any state body – neither that of the US Federal Reserve nor that of Western European governments. They were also outside the ambit of inter-state bodies, with the IMF opting for non-interference. In so doing, the IMF was not respecting its own statutes; article VI explicitly calls for controls on capital flows.

Handling costs for Eurodollar-denominated financial products were lower than those in other currencies, since ‘Eurobanks’ were not obliged to set up mandatory reserves. This meant they could offer high returns to depositors and competitive rates to borrowers, while posting high profits themselves. All at a risk, however.

Early signs of the impending winding down of the long wave of rapid growth included high levels of bank liquidity. The banks received increasing amounts of capital, since the drop in profit levels meant there were fewer and fewer attractive investments in production. The beginning of the 1970s saw a major upswing in Eurodollar loans. They jumped 212 per cent between 1970 and 1971, 58 per cent between 1971 and 1972, and 207 per cent between 1972 and 1973.

## INCREASE IN WORLD BANK LOANS

During the first 22 years of its existence, the World Bank provided loan financing for only 708 projects, to the tune of \$10.7 billion. From 1968 onwards, however, loan totals skyrocketed. Between 1968 and 1973, the World Bank loaned \$13.4 billion for 760 projects (George and Sabelli, 1994; McNamara, 1973).

## RECYCLED PETRODOLLARS

Many analysts and opinion-makers in the North have incorrectly blamed the surge in Third World debt on the 1973 increase in the price of oil, decided by the OPEC cartel of oil-producing countries from the South. They have got their facts wrong. As we have just shown, debt had increased significantly well beforehand. Two factors linked to the oil shock did, however, accelerate indebtedness. First, most of the revenues obtained by oil-producing countries were transferred by the South's governments into the North's financial system. This further heightened the excess liquidity of the North's banks. As a result, these banks sought to loan money to the South even more aggressively than they had done in the late 1960s and early 1970s. Second, non-oil-producing countries of the South were hit by the increase in their oil bill, creating a deficit in their trade balance. To finance this deficit, they were forced to borrow in the North's financial markets (Montes, 1996; Norel and Saint-Alary, 1988).

It is one thing to identify these two factors, quite another to blame OPEC countries for the Third World debt crisis.

It should come as no surprise, however, that a number of analysts have indeed blamed OPEC countries. It is an easy way to let decision-makers in the North off the hook. Beyond this, it is also a way to blame OPEC for the 1974–75 world economic crisis.

At the time, Ernest Mandel warned against such an explanation for the crisis (see in particular his article 'La hausse du prix du pétrole n'a pas provoqué la 20ème crise de surproduction depuis la formation du marché mondial du capitalisme industriel', *Inprecor*, 16 January 1975; Mandel, 1982; see also Norel and Saint-Alary, 1988). A regulationist economist such as Michel Aglietta has provided a similar explanation (Aglietta *et al.*, 1990).

## THE RESPONSIBILITY OF THE NORTH'S BANKERS

The North's banks pursued increasingly audacious (and risky) loan policies, especially with respect to Third World countries (to both their governments and their private companies). Policy-makers in Third World countries soon grew accustomed to a situation in which banks 'offered' them loans at very low rates (between 3 and 8 per cent until 1978) (Norel and Saint-Alary, 1988). When inflation was factored in, interest rates were almost nil, and even negative at times.

Borrowing was therefore an attractive proposition. Any number of the South's leading government officials and enterprise heads from the time can be found to testify that representatives from the North's banks descended upon the South to offer loans, tripping over one another to offer the most attractive terms. By the time the crisis hit in 1982, more than 500 banks had made loans to Mexico, more than 800 to Brazil (Bournay, 1994).

## EASY MONEY AND THE 1974–75 WORLD ECONOMIC CRISIS

When global recession hit in 1974–75, the North's governments implemented the kind of pump-priming measures that were very common at the time – the idea being to boost production through an increase in demand. This is the overall framework within which the policy of easy credit for the Third World was continued. Now, it was the turn of the North's governments to offer attractive loans, especially in the form of export credits for the South. These loans were provided to Third World countries on condition that they make purchases from the industries of the creditor countries – of industrial goods and other products, including military hardware disguised in one way or another. Such bilateral loans (from the North's governments to those of the Third World) aim to boost Third World demand for products from the North. As a result of this policy, between 1976 and 1980, the South's total debt grew at an annual rate of 20 per cent (Bournay, 1994).

## WHAT WERE THE LOANS FOR?

The World Bank and the North's governments and banks provided loans above all for large infrastructure projects – energy mega-projects, for example.

Loans were also provided to finance the balance of payments deficit of countries of the South. Export credits were provided to back the North's exporting industries.

All these loans obeyed the same overall logic – that of strengthening the link between the countries of the periphery and the world market, and of further steering these countries towards export-oriented production. In the South, this meant abandoning local food crops and industrial undertakings aimed at meeting the needs of the

domestic market. It also meant abandoning projects aimed at exporting high value-added products that could compete with those manufactured in the North. The loans also sought to induce each country of the South to specialise in the production of a few export products. The least advanced Third World countries were the most vulnerable; they specialised the most, thereby further heightening their dependence. This was also the case for more developed countries like Algeria, which was in the midst of a genuine industrial take-off. It was driven to concentrate in large measure on oil and gas extraction.

By steering the countries of the South to focus on the export of raw materials and basic manufactured goods, the North put them in competition with one another. This could only lead to a short-term drop in the price of the products being exported. The only possible consequence was a drop in export earnings and, above all, a deterioration in the terms of trade (see Chapter 8).

## CORRUPTERS AND THE CORRUPTED

It is difficult to determine how large a share of these loans went towards the personal enrichment of people holding public posts in the South. Norel and Saint-Alary ask, 'How many bankers so much as batted an eyelid when they saw that loans destined for Mexican or Filipino state firms were actually deposited directly into the Boston and Geneva accounts of highly placed government officials?' (Norel and Saint-Alary, 1988). There is no shortage of examples of such practices. By the time he was toppled after 20 years in power, the Filipino dictator Ferdinand Marcos had accumulated a personal fortune of some \$10 billion. Yet his beginnings were relatively modest. For their part, post-Marcos governments and the Filipino people have inherited an external debt in the order of \$30 billion.

The Mobutu dictatorship is another textbook case. In 1960, Mobutu earned the salary of the army corporal that he was. Thirty years later, his personal fortune totalled some \$8 billion (estimates vary since banks from South Africa and the North have refused to reveal the extent of Mobutu's holdings). When the dictator was toppled in May 1997, the new Congolese government and the Congolese people owed external debts totalling nearly \$13 billion.

These are not isolated cases. Such practices are part of the 'system' and are now considered to be normal and legal.

Further on, we examine Argentinian debt under the 1976–82 dictatorship. It is clear that there was systematic complicity between the banks of the North, the IMF, US officials and the Argentinian dictatorship to steep the country in debts while enriching Argentinian officials and the North's financial institutions.

A considerable share of money loaned by the North (almost 80 per cent according to Vilas, 1993, and other writers) never reached the target countries – let alone the people of these countries.

It is also possible to get an idea of the huge share of money loaned to the South that made its way into Northern bank accounts, by looking at Table 8.1 ('Gross and net debt – end of 1995'). In the case of Latin America, the table shows that the equivalent of two-thirds of total debt has been deposited by Latin Americans into Northern bank accounts. Without a doubt, a significant share of this money comes from the funds loaned to Latin American countries and subsequently embezzled by government officials and businesspeople from these countries.

One also has to take into account the loan money used for projects aimed at increasing the prestige of dictatorial and non-dictatorial regimes. In Côte d'Ivoire, for example, Houphouët-Boigny built a replica of St Peter's Basilica in the village where he was born. Mobutu had the Gbadolite Palace built in his home village. These examples are just the tip of the iceberg.

Finally, account should be taken of the environmental and human damage caused by the building of energy mega-projects and communications infrastructure. We should also keep in mind that most of the spending on these projects went towards importing equipment from the North and paying the salaries of experts from the North. Very little money actually made it to the South. To top it all off, many of these projects were never completed or work very much under capacity since they were not drawn up in accordance with the real needs of the countries in question.

Corruption also made headway within private business, where individuals from both the North and the South filled their pockets. A revealing example is that of Elf Aquitaine in Congo-Brazzaville. In 1997, the former Congolese president, Patrice Lissouba, opened up a can of worms when he lodged a complaint against the Elf group for involvement in a coup d'état. This was the way Elf had chosen to 'punish' Lissouba for considering the idea of selling a series of oil wells to an American oil company. Lissouba's complaint says: 'It would not

be difficult to find the account-book proof of Elf's financial support to the *coup d'état*. This is because the preparation and execution of such a large-scale operation cost, directly or indirectly, somewhere between 100 and 200 million dollars.<sup>1</sup> He denounces the financial circuits (from which he himself benefited) that go through the Paris-based FIBA bank, the Luxembourg-based SIBA and the Belgian bank La Belgolaise (*Le Monde*, 27 November 1997). This scandal ties in with the revelations of a study carried out in France, concerning the payoffs made by Elf into the Swiss bank accounts of about 40 highly placed French officials. The list of officials includes a former minister of a right-wing government, a close associate of the former right-wing Minister of the Interior Charles Pasqua, and a friend of former President François Mitterrand (*Le Monde*, 1 December 1997).

In the world of corruption, it takes two to tango. Belgium (along with Luxembourg) and France rank first and second in the list of corrupting nations compiled by Johann Lambsdorff, professor of economics at the University of Göttingen, for Transparency International. A whole host of laws in the North explicitly allow companies to account for commissions paid overseas and deduct them from their taxable profits (*Le Soir*, 30–31 August 1997). Furthermore, a portion of the aid 'granted' by France to countries in its orbit returns directly into government coffers.

#### BOX 2 THE INGA DAM IN CONGO-ZAIRE

Long on the project books when Congo-Zaire was a Belgian colony, the Inga hydroelectric complex got under way in 1965 after General Mobutu took power. The project remained under the wing of the president's office throughout. By late 1971, the project needed new financing to reach completion. The first phase of Inga absorbed \$163 million, 125 per cent more than initial estimates. By the end of 1980, the Inga central was using half its capacity; almost none of the industrial projects destined to be powered by the new complex had seen the light of day. Still, at that time, a group of industrialists set about building Inga II, which was meant to provide three times as much power as Inga I. Its initial estimated cost was \$360 million, it ended up costing \$460 million. It was financed by bank and commercial loans. The Belgian Société Générale de Banque provided the biggest bank loans – some \$167 million at interest rates between 6 and 8 per cent. Problems with

silting up significantly increased Inga II's operating costs. Furthermore, the industrial development that would have justified the second complex never came about (Galand and Lefevre, 1996). Inga did indeed generate electricity – transmitted through a network of thousands of kilometres of power lines linking up strategic industrial centres. Yet the worst thing about this whole classic 'white elephant' tale, is that Inga was not designed nor used to provide even a spark of electricity to power village water pumps, to light local health clinics or to improve in any way the lot of the hundreds of thousands of people living under the web of high-voltage power lines. A study carried out at the request of the Belgian Minister for Cooperation and Development makes the origin of such risky ventures quite clear.

In the context of crisis in Western countries, excess liquidity in the international monetary system – combined with the near-total absence of controls over financial markets – led bankers to redirect their financial surplus into the Third World. As such, they became specialists in the transformation and recycling of savings from the Third World into loans to the Third World. The resulting debt was highly concentrated in a small number of countries, and owed to a small number of largely American lender banks.

Big American banks had already begun to loan to Third World countries in the late 1960s. But the flood of petrodollars onto international capital markets led to lending of epidemic proportions, with door-to-door 'money salesmen' criss-crossing the Third World in the hunt for borrowers. (E. Simons, B. Verhaegen and J-C. Willame, *Endettement, technologie et industrialisation au Zaïre, 1970–1981*)

## THE OCTOBER 1979 U-TURN

In the 1970s, global inflation reached levels that were intolerable from the standpoint of the capitalist system (Adda, 1996; de Brunhoff in Chesnais, 1996). Real interest rates on loans, accounting for inflation, were negative, which was damaging to creditors.

A radical U-turn was made in October 1979, under the guidance of the head of the US Federal Reserve, Paul Volker, and British Prime Minister Margaret Thatcher. Volker and Thatcher represented,

respectively, the biggest financial power and the country with the biggest international currency market. Interest rates were sharply increased. The primary objective of the 'second October revolution', as some commentators called it, was to stamp out inflation in the US. The result was an increase in interest rates on short-term loans to unprecedented levels.

This policy was promoted worldwide from 1980 onwards by the Reagan administration and Thatcher government. Neo-liberal policies were progressively imposed the world over, leading to a fundamental overhaul in the way national economies were financed internally and externally. This change in financial policy had a major impact on the most vulnerable countries (in the form of the Third World debt crisis), and on employment, salaries, social spending and the public debt in the developed capitalist countries.

## THE FINANCIAL SUFFOCATION OF THE THIRD WORLD

### **The Effects of the Increase in Interest Rates**

For Third World countries, this new policy meant a tripling of payments on the same levels of debt. This is because the interest rates they paid followed the upward march of the Prime and LIBOR rates (see glossary). Loans contracted during the 1970s contained a clause whereby interest rates would be pegged to changes in the Prime and LIBOR rates.

This evolution of interest rates can be seen very clearly in Table 7.1.

In this table, the real interest rate is calculated by subtracting the US inflation rate from the nominal interest rate. For our purposes, the Prime Rate provides a good idea of the rates practised on international financial markets. Like the London LIBOR rate, it is used as a reference for setting the rates on loans to the Third World.

The figures clearly show how low interest rates were in the 1970s (in both nominal and real terms). In 1974–75, real interest rates were negative. The upward trend began in 1979–80 with a rise in nominal rates. One of the objectives was a radical reduction of inflation, beginning with the US. This drop in inflation began in 1981, leading to a strong surge in real interest rates which ultimately asphyxiated financially the South's debtor countries.

Table 7.1 Nominal interest rates, real interest rates and inflation

Year	Prime Rate		
	Nominal %	Real %	US inflation %
1970	7.9	2.0	5.9
1971	5.7	1.4	4.3
1972	5.2	1.9	3.3
1973	8.0	1.8	6.2
1974	10.8	-0.2	11.0
1975	7.9	-1.3	9.2
1976	6.8	1.1	5.7
1977	6.8	0.3	6.5
1978	9.1	1.4	7.7
1979	12.7	1.4	11.3
1980	15.3	1.8	13.5
1981	18.9	8.6	10.3
1982	14.9	8.7	6.7
1983	10.8	7.6	3.2
1984	12.0	7.7	4.3
1985	9.9	6.4	3.5
1986	8.3	6.4	1.9
1987	8.2	4.5	3.7
1988	9.3	5.2	4.1
1989	10.9	6.1	4.8
1990	10.0	4.6	5.4
1991	8.5	4.3	4.2
1992	6.3	3.3	3.0
1993	6.0	3.0	3.0
1994	7.7	5.1	2.6

Source: CEPAL in Ugarteche, 1996, p. 230.

(It should also be noted that real interest rates were higher throughout the 1980s and 1990s than in the 1970s. This means that new loans granted in the 1980s and 1990s to finance servicing of 1970s debts usually had higher real interest rates than those of the loans they were meant to service.)

Even more damning is the study made by Sebastian Edwards, World Bank economist and head of the bank's Latin American economics division until 1996. Edwards calculates the real interest rates used for Latin American loans by subtracting the inflation rate for Latin American exports from the nominal LIBOR rate. This is an astute calculation to make, since Latin America services its debts with its export earnings.

Edwards writes,

in the case of Latin America, the real interest rate went from an average of -3.4 per cent [a negative rate favourable to debtors] between 1970 and 1980 to +19.9 per cent in 1981, +27.5 per cent in 1982 and +17.4 per cent in 1983. (Edwards, 1997)

### **The Shrinking of Export Markets and the Resulting Drop in Earnings Created Trade Deficits for the Countries of the South**

In 1980–81, the first generalised recession since the one in 1974–75 caused export markets to contract (Mandel, 1982, pp. 214). Coupled with the sharp fall in the price of raw materials from August 1982 onwards, this financially throttled the countries of the Third World. These countries were hit by a drop in export earnings and an increase in interest payments. This in turn created a trade deficit, which had to be financed with new loans.

At the same time, credit sources were drying up as banks became aware of the risks they had taken.

The earnings of oil-producing countries plummeted; petrodollars were no longer available for recycling into loans.

The spectacular increase in the US budget deficit under Reagan was financed by masses of capital that flooded into the US, and away from Third World countries.

The US overtook Third World countries as the main borrower on global financial markets, while West Germany and Japan overtook OPEC as the world's main moneylenders.

Not surprisingly, the decision by banks abruptly to stop all loans to Third World countries led to the very suspension of debt-service payments that these banks feared.

In August 1982, Mexican officials announced that they were no longer able to meet their international financial obligations. They

would soon be followed by other Third World governments the world over.

The situation was soon contained, however, when the IMF and the World Bank jointly stepped in as the main Third World debt collection agency. Within the Paris Club, which works closely with the IMF and the World Bank, the North's creditor countries set about renegotiating their bilateral loans with debtor countries. The London Club oversaw the withdrawal of private banks from the Third World debt market, and guaranteed that these banks' interests would be fully looked after.

Almost all the countries of the South agreed to debt repayment plans that actually increased the amounts to be paid over the medium and long term.

# The Transfer of Wealth from the South to the North

One idea is deeply embedded in the public psyche: the North helps the South. Still, former French president François Mitterrand declared at the July 1994 G7 meeting in Naples:

In spite of the considerable sums spent on bilateral and multilateral aid, the flow of capital from Africa to the industrial countries is higher than the flow from the industrial countries to developing countries.

In fact, there is a massive transfer of the social surplus created by the South's workers and small producers to the dominant classes of the industrialised world and of the Third World countries themselves. This chapter initially provides a general overview of the different types of South–North transfers, then discusses the loss of potential hard currency earnings incurred by the South as a result of the North's protectionist policies. Finally, the chapter examines official development assistance (ODA) from a variety of angles.

## THE TRANSFER OF WEALTH

The transfer of wealth takes many converging forms.

### **Debt Repayment**

Here are the UN's official figures: total developing country foreign debt in 1980, \$567 billion; in 1986, \$1,086 billion; in 1992, \$1,419

billion (Khor, 1994). By the end of 1995, the figure was \$1,940 billion (\$1.9 trillion).

According to the UN, between 1980 and 1992 interest payments totalled \$771.3 billion, to which should be added \$890.9 billion in repayment of principal. In other words, during these twelve years Third World countries made \$1,662.2 billion (\$1.7 trillion) in debt payments. During this period, they paid three times more than their 1980 debt – only to find themselves three times more in debt. The external debt has become an eternal debt, with new loans serving only to pay off old ones.

How is it that principal repayment could possibly be greater than the amount originally owing in 1980? We come to the heart of the transfer mechanism set up by the North's bankers, with the help of the Paris Club and the IMF–World Bank duo. The IMF and the World Bank actually take in more money than they give out in loans, and have done so since 1986.

Year in, year out, debt servicing soaks up between \$160 and 200 billion (of which \$70 billion in principal repayment) go to private banks, other institutional investors, the IMF, the World Bank and the most industrialised countries. This is more than 3.5 times the money disbursed in official development assistance (ODA – see end of chapter). In 1994, Third World debt servicing totalled \$200 billion and has actually increased since.

Debt repayment works like a vacuum which sucks away a portion of the social surplus produced by the South's working men and women (be they waged workers, individual or families of small producers, or service sector workers in the informal sector). It sends off these vast sums to holders of capital in the North and to dominant sectors in the South. The South's dominant classes grow rich off the sums transiting through and out of their countries, while the national economies they head stagnate or decline and the local populations become impoverished.

### BOX 3 A KEY PARALLEL: REPAYMENT OF THE NORTH'S PUBLIC DEBT

While this is not the focus of this section of the book, it seems appropriate to mention here the parallel between repayment of the Third World debt and repayment of the public debt in the industrialised countries. Public debt repayment in the North is a

mechanism for draining off a portion of the earnings of workers and their families in favour of holders of public debt paper – institutional investors (banks, pension and mutual funds, insurance companies) owned and controlled by capitalists.

This drain occurs thanks to the growing share of government tax revenue used to pay off the public debt. This government tax revenue, in turn, is earned primarily from taxes on workers' wages and indirect sales and excise taxes, which proportionally hit low and mid-range earners hardest.

François Chesnais has made the same point:

Part of the increase in the size of the financial sphere is a result of the following chain of events. First, wealth takes the form of wages and fees or of farmers' and small-business earnings. Second, this wealth is siphoned off by the state as taxes. Third, the state transfers this wealth into the financial sphere as interest and principal payments on the public debt. (Chesnais, 1996)

### **The Difference in Interest Rates from North to South**

In the 1980s, bankers from the North made debtors in the South pay risk premiums for the money they borrowed. These premiums were tacked on to loans that enabled countries of the South to continue servicing their debts. As for loans in the 1970s, they were contracted at a variable rate indexed to changes in the London LIBOR rate or the New York Prime Rate. According to the United Nations Development Programme (UNDP), this created major differences between rates in the North in the 1980s and those applied to loans to the South: 'During the 1980s, while interest rates were 4 per cent in the industrialised countries, the effective interest rate paid by developing countries was 17 per cent. On total debt worth more than \$1,000 billion, this meant a special interest premium of \$120 billion annually. This merely aggravated a situation in which net transfers to pay the debt totalled \$50 billion in 1989' (UNDP, 1992).

The 1997–98 Southeast Asian crisis provoked a sharp increase in the risk premiums the region's countries must pay to borrow the money needed to pay off short-term debt. In June 1997, Thailand was paying 7 per cent to its lenders; by December 1997 it was paying 11 per cent. By late 1997, Brazil and Russia, two countries at opposite

ends of the planet, had to double the yield on their debt issues in order to remain attractive to foreign investors.

What influences changes in risk premiums? The level of investor confidence in a borrower country's ability to pay off its debts. Obviously, the economic crisis in Southeast Asia has reduced investor confidence. Yet it was the very same investors who unleashed the crisis by withdrawing their capital from the countries of the region. These same lenders (including the IMF and the World Bank) are now demanding a higher rate of return as a condition for bringing back some of this capital.

Two American rating agencies, Moody's and Standard and Poor's, specialise in 'country-risk' estimations. They have significant influence on risk-premium levels. On 22 December 1997, Moody's decided to downgrade South Korea by several notches in its 'country-risk' tables. Until that date, South Korea had been given the same ranking as reliable industrialised countries. Overnight, it became a high-risk country on a par with the Philippines. Ever since, South Korean debt paper has had the same risk rating as junk bonds.

We are seeing a repeat of the 1982 crisis, 16 years later, on the eve of the new millennium. South Korea and the countries of the Third World will henceforth pay higher interest rates than the North. The phenomenon has been exacerbated by the 'flight to quality'. As a result, since the end of 1997, institutional investors have preferred debt issues from the most industrialised states over those from the economies of the Periphery. This has sparked a generalised fall in the rates offered by the North's governments.

The gap is widening still further between the interest rates paid by the periphery and those found in the centre.

### **Deterioration in the Terms of Trade**

The world market is characterised by the fact that the majority of countries in the South have continued to be exporters of raw materials and low value-added manufactured goods. Conversely, these countries import high value-added industrial goods and technology. They are also net importers of farm products destined to feed the population and livestock – which livestock is largely exported to the North.

The terms of trade are based on what a basket of goods exported by the South can fetch in the North. According to the UN Secretariat, a

basket of goods from the South could buy 52 per cent less in 1992 than it could in 1980. In other words, a country in the South must export twice as much to obtain in exchange the same quantity of goods from the industrialised world.

OPEC member countries have seen their terms of trade plummet even further. In 1992, the real price of crude oil was one-third of what it was in 1981.

For sub-Saharan Africa, from 1986 to 1989 alone (just four years) the fall in the terms of trade meant \$55.9 billion in lost earnings. Ninety per cent of exports from half the countries of Africa is made up of raw materials.

Fifteen countries belong to the 'severely indebted middle-income country' (SIMIC) category: Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia. Between 1981 and 1989, the deterioration in the terms of trade cost them \$247.3 billion.

Above and beyond this downward tendency and market sensitivity to marginal fluctuations, industrialised countries have aggravated the problem by manufacturing substitutes: synthetic fibres, artificial sweeteners, and so on.

The most recent substitute, and not a minor one at that, would allow countries of the North to label as 'chocolate' a product they make that has virtually no cocoa in it. The European Commission has authorised European chocolate makers to substitute cocoa butter (produced in the South) with fat, totalling up to 5 per cent of the product's net weight. The Commission realises that this would trigger a fall in cocoa exports to the European Union (EU), leading to an inexorable fall in the price of cocoa on the world market and severe poverty for the South's cocoa farmers. But the European lobby is very powerful. This is a clear example of EU protectionism against the South.

Even when they export manufactured goods, countries of the South generally lose out in trade with the North. Between 1980 and 1990, the price of the South's manufactured exports increased in nominal terms by 12 per cent. During the same period, the G7's manufactured exports rose 35 per cent in price (UNDP, 1992). In real terms, the South's manufactured exports dropped in price, the North's rose.

In 1972, Ernest Mandel and a handful of other economists highlighted this deteriorating state of affairs. In his book *Late Capitalism*, Mandel writes:

The share of the underdeveloped countries in world trade declines – instead of growing or remaining constant – and the decline is rapid. All private and public transfers of capital from the metropolitan countries cannot keep pace with the flow of values in the opposite direction, and the countries of the so-called Third World consequently suffer relative impoverishment in their transactions with the imperialist countries. Obviously this impoverishment cannot be accompanied by a growing share in world trade, i.e. by a growing share in international purchasing power.

The Third World's rapidly declining share in world trade – from approximately 32 per cent in 1950 to approximately 17 per cent in 1970 – naturally does not in any way imply that there has been an absolute decline in the dependence of imperialist countries on certain strategic raw materials ... But within the framework of the capitalist world economy the contradiction between the use value and exchange value of commodities is expressed in the fact that the increased dependence of imperialism on the raw materials exported by the colonial countries is accompanied by a relative decline in the prices paid for these raw materials and a relative decline in their value. (Mandel, 1978)

According to Augustin Papic, former member of the UN's North–South Commission, the invisible transfer of wealth from the South to the North – due to the deterioration in the terms of trade – could total some \$200 billion per year. That is, as much or more than what is paid out annually in debt-service payments.

In late 1997, the Southeast Asian crisis provoked a general fall in the prices of raw materials. It is difficult to predict how long this trend will last. It will largely depend on the duration of the crisis in the region and on whether it spreads outside the region (thereby causing global deflation). The raw materials most severely hit have been copper, zinc, nickel, aluminium, gold, platinum, oil and pulp for paper.

The deterioration of the terms of trade is a sign of the unequal character of global trade. The most industrialised countries are in an advantageous position in their trading relations with the South. A study of France's foreign trade provides recent confirmation of this

state of affairs. A study published by the French statistical institute INSEE, *Le Commerce extérieur de la France* (INSEE, 1997), shows that in 1996 France recorded a considerable trade surplus with low-wage countries. France's trade with countries of the North is balanced, but it recorded a surplus in 1996 – 40 per cent thanks to its trade with Africa, 25 per cent with the Middle East and 15 per cent with Eastern Europe. Yet 80 per cent of France's trade is carried out with other industrialised countries. In other words, the remaining 20 per cent of the country's foreign trade – with the Third World and Eastern Europe – generated France's trade surplus.

### **World Trade Controlled by the North's MNCs**

The industrialised countries' MNCs control global transport, trade and the distribution of goods and services. These companies take in a large share of the earnings obtained through the sale of commodities, since Third World countries must pay astronomical amounts for the transport, insurance, packaging and marketing of the products they export and import. The industrialised countries' shipping companies belong to well-organised cartels and charge high fees for transport services. In 1979, these companies controlled 74 per cent of the world's merchant fleet, while developing countries controlled only 9 per cent. The rest was controlled by the Eastern Bloc. One finds similar figures in the air freight industry.

Several studies have shown that Third World countries receive on average only 10–15 per cent of the retail sale price of their products in the North.

### **Profit Repatriation by MNCs Operating in Third World Countries**

Between 1980 and 1982, net repatriation of MNC profits totalled \$122 billion.

In the 1970s, the net inflow of foreign direct investment (FDI) into 'developing countries' was on average higher than the net outflow of FDI earnings (dividends, royalties, fees) into North-based MNC coffers. But with the onset of the Third World debt crisis, especially in Latin America, MNCs reversed the trend by accelerating and increasing earnings repatriation from 1981 to 1986.

Since MNCs do a lot of internal under-charging and over-charging, it is difficult to determine the exact value of profit repatriation. There are a number of creative accounting techniques for shifting a company's profits to one of its production and marketing locations, depending upon a variety of factors. Corporate tax rates are one such factor, as is the need to repatriate profits to company headquarters in the North. The same MNC might switch from one technique to the next, at a particular time or place, depending on which one best corresponds to its interests. Some MNCs (those in a monopoly or oligopoly situation) handle everything from the extraction of raw materials to their sale to the manufacturing and distribution sector. For them, it matters not if profits appear on the books of the extraction subsidiary, of the transport division or of the refinery. A share of the total value that appears in the data of imperialist countries as domestically produced profit is, in fact, surplus created in the Third World.

One technique consists of an MNC's headquarters selling goods and services to one of its Third World subsidiaries at prices above world market levels.

Augustin Papic has calculated, for example, that pharmaceutical MNCs make internal sales to their Latin American subsidiaries at prices between 33 and 314 per cent above world market levels.

In Colombia, subsidiaries of multinational pharmaceutical companies import products from company HQ at prices 155 per cent higher than usual export levels. Other examples include 40 per cent price rises in the rubber industry, 26 per cent in the chemicals industry and between 258 and 1,100 per cent more in the electronics industry.

In the other direction, subsidiary exports to company headquarters are tremendously under-priced. A study revealed that Mexican, Brazilian and Argentinian MNC subsidiaries under-priced their exports by about 50 per cent in comparison to local companies (Mandel, 1978).

Over the last 15 years, the development of industrial free-trade zones in a number of Third World countries – including China – and the former Eastern Bloc has made it much easier for MNCs to repatriate their profits. The structural adjustment programmes imposed on debtor countries always have clauses that allow MNCs freely to repatriate profits to company headquarters. Indeed, the Multilateral Agreement on Investments (MAI) – under negotiation

between OECD countries since 1997 – aims to remove definitively all obstacles to profit repatriation.

### **Patents, Royalties, Intellectual Property Rights**

Another net transfer of resources from the South to the North stems from the payments the South must make to acquire or use technologies from the North. This is part of what Ernest Mandel refers to as 'technological rent' in *Late Capitalism* (Mandel, 1978). MNCs are the ones that benefit from this rent, thanks to the technological advantage they have acquired. This advantage is not guaranteed once and for all. MNCs are often engaged in intense research and development and product development battles with one another (in the computer industry, for example). While there are both winners and losers in the North, the countries of the South are almost always the losers. They cannot hold their own against the research and development muscle of the MNCs and governments of the North (95 per cent of research and development is carried out in OECD countries). The latest set of GATT agreements (laying the basis for the World Trade Organisation) have further worsened the situation – on the question of intellectual property rights, for example.

### **Intellectual Property Rights: The View from the South**

Most Third World countries see genetic resources as part of their collective heritage. For millennia, small farmers have selected seeds to work the land in perfect harmony with their needs while respecting nature. They have never claimed these seeds and the resulting produce as their intellectual property.

### **Intellectual Property Rights: The View from the North**

Biochemical and agrobusiness MNCs like Ciba-Geigy, Sandoz, Shell, ICI, Cargill, Grace, to name the biggest ones, beg to differ. They scour the planet to 'discover' seed varieties and claim all patent rights. In this way, they stake their control over the patiently developed genetic heritage of humankind.

The US and other developed capitalist countries have harnessed the Third World's biological diversity to make millions of dollars in profits, without returning a single dollar to the original 'owners' of

the seeds, the countries or local communities in question. For example, a variety of wild tomato was taken out of Peru in 1962, and made \$8 million per year for American canning companies thanks to the variety's higher concentration in soluble solids. None of the profit was shared with Peru, from where the genetic material originated.

According to Vandana Shiva (Shiva, 1994), between 1976 and 1980 wild varieties taken from the South brought in \$340 million annually for the American agricultural sector. Wild seed varieties have contributed some \$66 billion to the American economy.

Since the beginning of the 1970s, agrochemical companies have taken over more than 400 seed companies, mainly through the toughening of legislation defending intellectual property rights.

MNCs work for homogeneity and uniformity through genetic engineering, with the specific aim of dominating the markets. It is easier for a laboratory-engineered variety of rice to be traded on stockmarkets than for the innumerable strains of rice that correspond to local conditions and tastes the world over. This is especially true when the laboratory-engineered variety in question becomes private property thanks to 'intellectual property rights'. It can then be the object of a production monopoly, as can all its subsequent generations. Indeed, a farmer who buys wheat seeds cannot use the seeds from the harvest to replant for the following season. Furthermore, the monopoly extends to an entire range of related products. It is no coincidence, for example, that the only herbicide tolerated by the variety in question is produced by the same MNC. The thirst for 'captive' markets is so great that 'sterile' varieties of seeds are created in order to oblige farmers to purchase a new batch each year – since each batch loses its genetic characteristics with each harvest. Thus, the circuit is complete: small farmers are no longer producers and owners, but rather buyers and consumers. They become slaves of patents and of the MNCs that hold them.

Property rights are said to improve the product and preserve biodiversity. In fact, biotechnologies are used to harness properties that have already been attained by nature – primarily in order to create uniformity through the selective breeding of high-yield varieties.

Such uniformity is disastrous for crops. Plants become clones, all share the same weaknesses. In 1970–71, a rust infestation destroyed 15 per cent of the US's corn crops, whose genetic uniformity made

them very vulnerable. Similar devastation has occurred with 'Green Revolution' varieties of rice in Asia.

'High-yield' varieties are also of dubious merit. International programmes for eucalyptus plantations, for example, were clearly designed to back the pulp and paper industry's need for rapid growth. Eucalyptus yields almost nothing in biomass, needed to feed animal life. Furthermore, in the eyes of a forestry expert, naturally diverse tropical forests could even be described as 'unproductive'. Industry is not interested in diversity, it only cares about the yield in profitable natural resources.

MNC laboratories always defend technological changes of biodiversity by saying that they 'improve' and increase 'economic value'. The laboratory creation of seed varieties is seen as 'production', in keeping with the logic of assembly-line production. The reproduction of the required raw material by nature and the Third World's farmers and forest dwellers is seen only as 'preservation'. The only 'value' registered is that created through work carried out in the laboratory. Centuries of innovation are totally devalued in order to grant monopolistic control over life-forms solely to those using new technologies for genetic modification. Bio-uniformity (as opposed to biodiversity) is the unavoidable outcome of such an approach in a context where domination and profit hold sway.

### **Capital Flight from South to North**

The IMF itself estimates that in 1988 alone some \$180 billion fled the economies of the 13 most indebted countries. Holders of capital in the South shifted a share of their holdings onto the North's financial markets, into numbered bank accounts in offshore locations, and into real estate in the North.

If one subtracts such holdings from Third World foreign-debt totals, a very different picture emerges (Table 8.1).

The figure for deposits in Western banks comes from quarterly statistics of the Bank for International Settlements (BIS). Table 8.1 takes account of all bank and non-bank deposits from all the countries of the regions in question, except for the offshore banking centres in such places as the Bahamas, the Cayman Islands and Hong Kong, for which only non-bank deposits have been included.

What does the table tell us? It might seem quite normal that companies would make deposits in Northern banks for business

reasons. But foreign deposits are so great for Latin America, North Africa and the Middle East – where they equal two-thirds of total foreign debt – that it is safe to conclude that they largely correspond to the fraudulent and personal enrichment of people from government and business circles. Such people have embezzled a large share of foreign money loaned to their countries (the Argentinian example is striking). Some of these deposits also come from organised crime, the drug trade in particular.

Table 8.1 Gross and net debt – end of 1995 (\$bn)

Region	Gross debt	Deposits	Net debt	Net/Gross (%)
North Africa/Middle East	364	254	110	30.2
Sub-Saharan Africa	198	47	151	76.3
Latin America/Caribbean	529	366	163	30.8
Asia/Oceania	830	299	531	64.0
Total	1,921	966	955	49.7

Source: Jacques Bournay from BIS figures, 1997 unpublished.

### **Privatisation of the South's State-Owned Companies**

Governments of the South have sold off and continue to sell off their state-owned companies, of which a great number are bought by private and public MNCs from the North. Given that these companies are sold very much below their real value, there can be no doubt that this, too, constitutes a transfer of wealth and strategic position from the South to the North.

### **The 'Brain Drain' from South to North**

Although the North has gradually closed its borders to the South's citizens, some countries in the North – especially the US – have made exceptions to allow for a brain drain from the South (and East). Having received publicly funded training and professional experience in their home countries, citizens from the periphery are welcomed in the North. In some cases, the number of people involved is quite staggering. Sudan, for example, has lost a large share of its

educated workforce. In 1987 alone, it lost 17 per cent of its doctors and dentists, 20 per cent of its university teaching staff, 30 per cent of its engineers and 45 per cent of its land surveyors. All these professionals went North (UNDP, 1992). A large number of scientists from the former Eastern Bloc have gone to the US since the beginning of the 1990s.

### **Losses Sustained by the South Due to Protectionism in the North: Protectionism in the North Against Products From the South**

The capitalist governments of the North impose restrictions on the flow of goods by using tariff (duty) and non-tariff (quotas and regulations on standards and quality) barriers. According to the UNDP (UNDP, 1992, 1993, 1994), such restrictions cost the South at least \$40 billion every year, of which \$35 billion stem from restrictions on manufactured items (\$24 billion due to the Multifibre Agreement) and \$5 billion on primary goods (UNDP, 1992). Concerning the Multifibre Agreement, by 1987 almost half of developing country textile exports were subject to restrictions, of which 70 per cent were mandatory (UNDP, 1992).

As for farm products, the European Union (through the Common Agricultural Policy), the US and Japan subsidise agricultural production. This means farm product imports from the South are less attractive. The EU and US have become net exporters of farm products to the rest of the world. Their subsidies to the agricultural sector (largely to agrobusiness) make their products more affordable in the South's markets than some locally produced items (Hintjens, 1994).

As for manufactured products, 20 of the world's 24 most industrialised countries are globally more protectionist than they were at the beginning of the 1980s. This protectionism largely concerns products from developing countries. According to an UNCTAD study, the average real rate of protection is twice as high for developing countries as for industrialised countries. According to the World Bank, this loss in potential goods and services exports costs developing countries 3 per cent of their GNP, or an annual loss of \$75 billion (UNDP, 1992).

At the end of 1990, GATT member countries agreed on 284 arrangements limiting exports, many of which concerned products exported by the Third World: agricultural products (59 arrange-

ments), textiles and clothing (51), steel and steel products (39), electronics (37) and footwear (21) (UNDP, 1992).

Moreover, technology markets are also highly protected. Potential losses could amount to some \$20 billion (UNDP, 1992). Beyond the theft by MNCs of Third World communities' ancestral heritage (see section on intellectual property rights), the cost of acquiring technological patents has risen sharply. Between 1981 and 1988, trade in machine goods (and the related technology) between industrialised countries grew at an annual average of 10.2 per cent. Such trade grew only at an annual average of 1.5 per cent with developing countries. As a result, most Third World countries have been left on the margins of trade in technological innovation. Increased trade between industrialised countries has boosted their own dynamism and competitiveness, and prevented the rest of the world from sharing in the fruits of research (UNDP, 1992).

### **Limits on the Right of the South's Citizens to Look for Work in the North**

We have already seen how the governments of the North skim off the cream of the South and the East's 'brains'. At the same time, they strictly limit the right of people from the South to sell their labour in the North.

The 1992 edition of the UNDP's *World Report on Human Development* clearly challenges restrictions on the freedom of movement of people from the South to the North. Such restrictions have been put in place by the governments of the industrialised capitalist countries.

One of the major sources of lost revenue for the Third World is the restrictions on the labour force. According to a prudent estimate from the UNDP, the cumulative loss of hard currency remittances for countries of the South, due to the suspension of legal immigration in the 1980s, is in the range of \$250 billion (UNDP, 1992).

Showing equal prudence, the UNDP 1992 report calls for the abrogation of restrictive measures taken by governments of the North to limit the free movement of people from the South to the North. Were these measures to be lifted, the UNDP estimates that every year 2 per cent of the Third World workforce would decide to emigrate. If these workers earned the minimum wage, in line with the poverty threshold in industrialised countries (about \$5,000 per

year), their annual income would total some \$220 billion. They would send between \$40 and 50 billion to their countries of origin, the UNDP calculates that after five years such remittances could reach a total of at least \$200 billion per year (UNDP, 1992).

The UNDP rightly points out that the effects of these losses are cumulative, given that the cost of opportunities denied in the present increases with time.

### **Who are the Real Beneficiaries of Official Development Assistance (ODA)?**

The share of ODA that remains in developing countries is very small. Almost all the money provided quickly returns to rich countries in exchange for products purchased from them.

(Robert McNamara, president of the World Bank,  
extract from speech given to World Bank governors,  
30 September 1968; McNamara, 1973)

'Official Development Assistance' is made up of the grants and soft loans (at favourable rates) provided by the public bodies of the OECD and OPEC. It is sufficient for a loan to be made at below market rates for it to be seen as assistance, even if every cent is paid back by the borrower country.

Apart from food aid, there are three major categories towards which such funds are directed: rural development, infrastructure and non-project aid (financing for the budget deficit or balance of payments of the assisted country). Non-project aid has been rising fastest in recent years.

This aid is made conditional upon the reduction of the public deficit, privatisation, ecological good conduct, policies aimed at the poorest sectors of the population and democratisation, among other things. All such conditions are laid down by the North's main governments and the World Bank-IMF. They have a rather questionable way of measuring democratisation and the fight against poverty.

Aid is provided through three different channels: 22 per cent comes in the form of multilateral aid (from international organisations), 64 per cent is bilateral aid (from 'donor' countries) and 14 per cent comes from NGOs.

ODA is usually 'tied aid'. This means that funds given or loaned will be used to buy products or services from the donor country. This has led some critics to say the bilateral ODA is actually assistance provided by industrialised countries to their exporters. Such a critique is backed up by the fact that contracts between companies from the North and countries of the South are usually guaranteed by government bodies (as with Ducroire in Belgium) or private concerns acting on behalf of the government (as with the COFACE in France, which was privatised in 1994). In the US, the analogous body is the Eximbank, in Germany it is Hermès, and in Britain it is the ECGD. If the aid recipient in the South defaults on payment, these bodies step in to compensate the exporter from the North with public money. In general, the compensation also goes down in the books as ODA.

ODA has dropped by more than 10 per cent since 1994 (*Alternatives Economiques*, March 1997), even though the Northern heads of state present at the 1992 Rio Summit had promised to increase annual ODA by \$125 billion (Toussaint and Comanne, 1994, p. 4). That would have meant tripling annual ODA volume. In fact, according to a 1997 UNICEF report, ODA has sunk to its lowest level for 45 years (*La Jornada*, 22 July 1997, Mexico City).

ODA provided by industrialised countries and multilateral institutions to the Third World is very low. In 1991, it totalled \$47.2 billion. This figure is obtained by calculating the difference between aid that has been provided – \$57.2 billion – and the sums that have been paid by Third World countries to reimburse previous aid, about \$10 billion (World Bank, 1994). ODA is far less than debt servicing payments made by Third World countries, which come to about 200 billion dollars annually.

### **The More a Country in the South Spends on Arms, the More ODA it Receives**

One of the most striking examples of 'tied' bilateral aid is that of the arms trade.

The more arms a Third World country buys, the more aid it receives from industrialised countries. Industrialised countries have an iron grip on most of the global arms trade. The US alone controlled 72.6 per cent of this trade in 1993. These are government-to-government sales, which account for the lion's share of arms spending in the world (*La Jornada*, 3 August 1994). Following the US

come France, Britain, Germany, Russia (whose sales have been on the decline since the collapse of the USSR) and China. These economic giants all have public sector companies or MNCs in the arms trade, constantly on the lookout to conquer new markets. While companies in other sectors are being privatised one after the other, the arms industry is quite happy to remain under state control. Private arms manufacturers also derive tremendous advantages from the military and economic power of their respective states, which help them find customers for their killing machines.

Developing countries account for about 15 per cent of global arms purchases. While this in no way justifies such spending, it is important to keep in mind given the share of the world's population (80 per cent) that lives in developing countries.

Contrary to what many in the North often hear and think, Third World countries are not the world's main spenders on arms.

It is significant that 'countries that devote major spending to the military (more than four per cent of GNP) receive about twice as much ODA per capita as those whose arms spending is less (between two and four per cent of GNP)' (UNDP, 1992).

In its 1994 report, the UNDP returns to this subject: 'Assistance more frequently goes to strategic allies than to poor countries. ... Until 1986, donor countries provided on average five times more in bilateral aid to countries with high arms spending than to those whose arms spending was low.'

In 1992, [high arms spenders] were still receiving two-and-a-half times more aid per capita than [low arms spenders]. (UNDP, 1994)

Israel, for example, an American strategic ally in the Middle East, receives \$176 in US aid for each poor person while Bangladesh receives only \$1.70.

The authors of the 1994 UNDP report draw attention to the double standards of the industrialised countries' governments:

Some donors argue that discrimination against countries with high military spending would violate their national sovereignty. This is a surprising argument given that donors are not so reluctant to violate national sovereignty in a large number of other government policy fields.

The report takes the example of demands made on aid recipients to eliminate food subsidies, to devalue their currencies and to privatise their state-owned companies. The report then says:

This contrast was particularly in evidence during the period of structural adjustment in the 1980s. Many donors watched in silence as dramatic cuts were made in social spending, while military spending continued to climb. In sub-Saharan Africa, military spending went from 0.7 per cent to 3.0 per cent of GNP between 1960 and 1990. Thus, some developing countries preferred to balance their budgets by compromising human lives rather than by reducing their military spending.

At the end of the 1990s, the governments and arms industries of the North have once again been prodding the countries of the South to increase arms spending.

Indeed, at a time when arms spending is on the wane in the North, governments and the arms industry are scouring the South for new markets. 'The US arms industry is faced with a substantial drop in defence spending, which has gone from 6.6 per cent of GDP in 1986 to 3.9 per cent in 1995. The US defence budget (including the Department of Energy) has dropped from 360 billion dollars in 1989, to 320 billion dollars in 1992, to 270 billion dollars in 1995' (Jean-Paul Hébert, *Le Monde diplomatique*, November 1995). It is worth noting that the US defence budget, while lower than before, is still greater than sub-Saharan Africa's total debt (which was \$240 billion in 1997, for a total population of 590 million people). To react to the general drop in military spending in the North (the same tendency can be observed in EU countries), the North's arms manufacturers have relied on their governments in their quest for new contracts in the South and East. US arms manufacturers are ahead of the competition in this respect. They controlled 48.9 per cent of Third World arms purchases in 1991, 56.8 per cent in 1992 and almost 75 per cent in 1993. The competition is fierce. Governments come to the rescue of their arms manufacturers by throwing their 'bilateral aid' to the South into the balance. New arms import contracts are encouraged, as a way to cushion the crisis of the North's arms industry. In fact, there was an increase in international arms sales in 1996 – for the second consecutive year, after eight years of uninterrupted decline (*Le Monde*, 17 November 1997). Gulf and Southeast Asian governments

account for two-thirds of total sales – with Taiwan, China and South Korea topping the list of Third World arms importers.

Since 1996, there has been an intense debate in the US and Latin American press on the arms trade. In 1977, at the time of the Latin American dictatorships, US President Jimmy Carter placed an embargo on arms sales to the region. This embargo has now come under fire, since Latin American countries feel an urgent need to upgrade their weaponry. The Chilean air force, for example, bought 20 second-hand Mirage jets from Belgium (*Jornal do Brasil*, 5 April 1997) at a time when the US would like nothing more than to sell Latin American governments its brand-new F-16 jets. The US Chiefs of Staff are currently consulting Latin American leaders; in 1997, President Clinton authorised US military aviation companies to explore the Chilean market. This is seen as a first step towards lifting the embargo. One of Chile's neighbours, Argentina, has rightly expressed concern over the proliferation of arms in the region.

This kind of US pressure is being felt in other parts of the world: Arab countries, Asian countries and the new NATO members (Hungary, Poland and the Czech Republic) have been barraged with offers. This US offensive stops at nothing: the Pentagon has even bought up Mig-29 and Suthoi-27, 30 and 37 jets from countries of the former Socialist Bloc in order, on the one hand, to replace them with US hardware and, on the other, to study Soviet era military technology (*Le Monde*, 18 November 1997). The reasons are quite straightforward: the US military-industrial complex is preparing to unleash a new generation of arms. In the interim, the challenge is to offload its stocks of military hardware from the previous generation. Many countries are going to receive arms that will be technologically obsolete in two to three years, when the countries in question will have just begun paying for them. The new generation of arms will give a strategic advantage to the US if ever there is a military conflict, since the US will be a generation ahead and have complete control over its adversary's military technology. The US will provide their customers with spare parts and technical assistance for outdated hardware, while progressively equipping itself with the latest from the new generation.

To summarise: ODA is directly tied to the strategic interests of the countries of the centre. It is tied in particular to arms sales, with the arms industry seeking the 'state intervention' that alone can enable or oblige Third World customers to buy its products.

# The World Bank and the IMF: 50 Years is Enough!

## BRETON WOODS: THE IMF AND THE WORLD BANK ARE BORN

On the evening of 30 June 1944, two special trains left Washington and Atlantic City. They were both packed with hundreds of well-dressed gentlemen (there were very few women) in fashionable suits and ties. Their conversations were in so many languages that local reporters referred to the trains as 'the Tower of Babel on wheels'.

Their destination was the locality of Bretton Woods, in the picturesque hills of New Hampshire. They were on their way to the UN conference on monetary and financial matters.

The meeting of 44 countries had been organised by US President Franklin D. Roosevelt. The goal was to lay down the rules for a new postwar international economic order.

The inaugural session of the conference was held in the grand ballroom of the Hotel Washington, where there was more than enough room for the hundreds of delegates.

US Secretary of the Treasury and conference chairman Henry Morgenthau read out a welcome message from President Roosevelt. Morgenthau's opening speech set the tone for the gathering and reflected the guiding spirit behind it. He called for 'the creation of a dynamic world economy in which the peoples of every nation will be able to realise their potential in peace and enjoy, increasingly, fruits of material progress on an earth infinitely blessed with natural riches' (Rich, 1994).

He stressed ‘the elementary economic axiom that prosperity has no fixed limits. It is not a finite substance to be diminished by division.’ And he concluded: ‘The opportunity before us has been bought with blood. Let us meet it with faith in one another, with faith in our common future, which these men fought to make free.’

The 700 delegates rose as the orchestra played the ‘Star Spangled Banner’.

This consensual address obscured the heated debates that had been going on for months between the heads of the British (above all J.M. Keynes) and American (H. Morgenthau) delegations. The US wanted to ensure definitively their supremacy in the world over the British. The debate between the Americans and the British had begun before American entry into the Second World War. Winston Churchill had told President Roosevelt, ‘I believe you want to abolish the British Empire. ... Everything you say is confirmation of this fact. Yet we know that you are our only hope. And you know we know it. Without America, the British Empire will perish’ (quoted by George and Sabelli, 1994). The US fulfilled its objectives, and the positions put forward by J.M. Keynes – while officially praised – were actually marginalised by H. Morgenthau.

The first weeks of the gathering were almost exclusively taken up by the drafting of IMF statutes, which had been the subject of debate for some months. The US’s main objective was setting up a system to guarantee postwar financial stability. It wanted to put an end to competitive devaluations, restrictions on trade, import quotas and all other measures inhibiting trade. The US wanted free trade without discrimination against their products. This demand had to be met since the US was the only Northern country at the time to have a surplus of basic foodstuffs. The US was also after a favourable climate for their investment in foreign countries; and the free access to other countries’ raw materials that they had been denied by European colonial empires.

The International Bank for Reconstruction and Development – or the World Bank, as it is known – was the first institution of its kind. Its basic structure, as spelled out in the articles of its Charter, has remained unchanged.

The Bank’s main goals were ‘to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes’ and ‘to promote the long-range

balanced growth of international trade by encouraging international investment' (Article I).

## How the World Bank and the IMF are Run

According to the statutes, the highest governing body in the Bank is the Board of Governors, each country is represented by a governor. The Bank and IMF's governors are usually the different countries' Ministers of Finance or central bank presidents.

In theory, the governors choose the Bank president. In fact, however, the president has always been a US citizen and is chosen by the US government, usually by the Secretary of the Treasury. The head of the IMF is usually European. Annual meetings between the Bank and the IMF are an occasion for all the governors of the two institutions to gather in one place.

On a day-to-day basis, most of the governors' powers are delegated to the Board of Executive Directors. In the beginning, the Bank had twelve executive directors who represented the 44 founding member countries.

The Bank's charter stipulates that each of the Bank's five biggest shareholders nominate its own executive director, each of the remaining directors represents a number of countries and is elected by them. The Bank has continually picked up new members (in 1997, there were 180 member countries), and as a result there are now 24 executive directors. The weight of each one's vote is essentially proportional to the share of funds provided to the Bank by the countries they represent.

The US vote accounted for 36 per cent of the total when the Bank was founded; it has now been reduced to 17.5 per cent. In 1997, the ten richest industrialised countries controlled 52 per cent of all votes, while 45 African countries together control only 4 per cent.

Executive directors live in Washington, meet often (at least once a week) and must approve each loan and the Bank's main policies. Day-to-day decisions require a simple majority on the Executive Board, but any change to the constitutive charter requires the approval of at least three-fifths of members and 85 per cent of total vote shares (which means the US, with 17.5 per cent of votes, has a veto on all changes to the statutes).

## The World Bank's Beginnings: Foiled by the Marshall Plan

Keynes wanted the 'reconstruction' component of the Bank to make it an institution that loaned capital to countries that had been 'devastated by the war, to help them rebuild their ruined economies and replace lost or destroyed means of production'. As a result, it was expected that the Bank would start by focusing on European reconstruction, and that its priority would be to back private investment. It was expected that direct lending would be at best a secondary activity.

Under US pressure, however, the Bank did not really participate in European postwar reconstruction. The Marshall Plan, set up by the US alone, occupied this function. The Bank made only four loans worth a total of \$497 million for reconstruction, while the Marshall Plan pumped in \$41.3 billion.

As an institution for reconstruction, the Bank was a failure. A war-ravaged Europe did not need interest-bearing loans for specific projects that took a long time to prepare. Rather, it needed quickly disbursed grants and low or zero-interest loans in order to strengthen its balance of payments position and purchase the basic goods of which it was in such dire need.

## The World Bank and Development

The ultimate objective of the Bank, as laid down in its statutes, was also to assist in the 'development of the productive resources of member-states, and thereby help to improve domestic productivity and the conditions and standard of living of working people'.

In the decades subsequent to this failure in the phase of 'reconstruction', the Bank focused on the second component of its name – 'development'. But since it has always been firmly under the control of the main capitalist powers, its conception of development has never been concerned with efforts aimed at emancipating the peoples of the Third World while ensuring egalitarian social development. The ten most industrialised capitalist countries have always controlled more than 50 per cent of World Bank shares (and votes) – which means that, if ever the need arises, they can push through a specific orientation. This has only happened on rare occasions, since the main capitalist powers prefer compromises in which they retain the upper hand and do not have to put things to a vote.

To finance development, the World Bank loans money to governments. The form these loans have taken has changed over time. But one key factor has not changed: the World Bank has never let anyone get away with not paying off their debts.

### **Politics and Geopolitics**

After 1955, the spirit of the Bandung Conference was alive in large parts of the planet. The Conference took place after the French defeat in Vietnam (1954) and came just before Nasser's nationalisation of the Suez Canal. Thereafter came the Cuban (1959) and Algerian revolutions and a new phase in the Vietnamese liberation struggle. In growing parts of the Third World, import-substitution policies were put in place, internal markets were developed. As a result, there was decreased dependence on the most industrialised capitalist countries. A wave of bourgeois nationalist governments (Nasser, Nehru, Peron, Goulart, among others) implemented populist programmes, while new revolutionary governments (Cuba, China) pursued an even more radical course.

World Bank projects had a strongly political content: to prevent the development of anti-imperialist movements by applying the lessons learned in South Korea and Taiwan. At the time, however, the World Bank had a relatively small amount of funds at its disposal. Its financial power was only given a boost later, under Robert McNamara (1968–81).

### **The World Bank and the Green Revolution**

The World Bank's approach to development is heavily productivist. The official aim of the Green Revolution of the 1960s was to increase agricultural production in the countries of the South in order to meet the food needs of local populations. But it had disastrous effects on the environment, and has actually increased the dependence of the countries involved on the agrobusiness MNCs.

### **The Violence of the Green Revolution**

National governments and institutions of the international community established centres in the Philippines (for Asia) and in Mexico (for Latin America), whose mission was to seek out and select

high-yield varieties of grain. These varieties were expected to fulfil the food requirements of the inhabitants of these countries – based on the argument that, as a result of population growth, traditional varieties were not able to meet rising demand. This was the motivation behind the ‘Green Revolution’.

This ‘revolution’ was not brought about by the people of the countries in question, it was imposed on them. In India, the 1965 drought provided the ideal pretext. Growth curbs on Indian agricultural production show that there had been uninterrupted growth – until 1965, where one finds a small drop caused by the drought. India requested limited food aid from the US, but the opportunity was exploited to impose a series of ecologically unsustainable techniques. Indeed, from the beginning of the 1960s onwards, capitalists had been promoting intensive ‘chemical’ export-oriented agriculture. The World Bank claimed to have saved India from famine. This is patently untrue. Although India was not exporting its farm products, its subsistence crops were enough to meet the country’s needs. In this vein, it is worth recalling that the Great Famine of Bengal in 1943 (between 2 and 3 million dead) was not caused by a lack of food but rather by an increase in the price of foodstuffs caused by inflation – itself caused by the war effort and speculation on food stocks.

Vandana Shiva has clearly condemned the ‘Green Revolution’ as the project that upset the fragile balance the country had achieved over centuries. She says it is wrong to claim that traditional structures were and remain unable to fulfil the country’s food requirements. She has put forward a well-supported argument to the effect that the real problem in the countries of the Third World is the distribution of land and wealth.

In fact, the ‘Green Revolution’ is the profitable path agrochemical MNCs have chosen to respond to these problems with science and technology – and, above all, without making any changes to agrarian social relations. In other words: no land reform. Vandana Shiva has noted that, as the ‘Green Revolution’ has grown in strength, traditional community structures have become dependent on technology that they neither created nor control. To be sure, this so-called revolution has been a major boon to multinational corporations.

The agribusiness industries of the North have imposed various seed varieties on countries like India. These varieties did produce

favourable results in the short term, but over time have been disastrous in a number of ways.

First, they require ever greater purchases of inputs: chemical fertilisers, pesticides, herbicides, and so forth, since these imposed varieties of rice are genetically programmed to degenerate after a generation.

Second, when the costs are added up, the performance of these varieties is no better than those obtained through traditional selection and improvement techniques. On the contrary. Dependence, on the other hand, has grown enormously – on machinery and fertilisers, all provided by the North's industries.

Finally, the 'Green Revolution' has produced a number of other harmful effects. It was carried out to the detriment of communal lands (forests, grazing lands). It has led to a severe impoverishment of biodiversity, an increase in plant diseases (traditional varieties were more resistant) and soil exhaustion (intensive crops have removed certain vital micro-elements). It requires much greater irrigation than traditional crops (and this, in regions where there are real risks of drought); the massive use of inputs has salinized huge tracts of land. As a result, the ecological balance has been irremediably destroyed through the intensification of these monocultures. Before the Green Revolution, the Ford Foundation had concluded that land in Punjab was under-utilised. In fact, peasants and small farmers had been using the land in a balanced way so as to avoid soil exhaustion. Now that we are well into the disaster of the Green Revolution, the Ford Foundation and World Bank have just discovered the virtues of organic fertiliser – rather late in the day.

In a number of works, Vandana Shiva has decried the violence of the Green Revolution. She places this entire episode within an historical perspective that reveals what really lies behind the 'revolution'. She sees it as part of the plunder and exploitation of the peasantry for the benefit of the trade and industry of the countries of the centre. In the eighteenth century, Indian agriculture was thriving. Until 1750, those who worked the land kept 700 of every 1,000 units produced. Of the remainder, only 50 left the village while 250 stayed in the village for the upkeep of the community. By the nineteenth century, after 50 years of British colonial rule, this pattern of distribution had been overturned. For every 1,000 units of production, peasants had to hand over 600, of which 590 went to the central authority, Britain. In spite of this tax grab on peasant

production, in spite of outside control of any surplus production, at the time the peasantry could still keep 40 per cent of the harvest in order to ensure the following year's production. Compared to the Green Revolution, this actually appears rather generous. The real objective of the Green Revolution was to limit the spread of the Chinese Revolution. The Green Revolution burdened the peasantry with debt, making them dependent. To produce 1,000 units, peasants and small farmers are obliged to take on debts equivalent in value to 3,000 units. They have to borrow to buy seeds (every year), fertiliser, pesticides, herbicides, tractors (which often have to be abandoned owing to the lack of spare parts), and so on. They rarely produce enough to pay back their loans. After two growing seasons, they sell their land to the banks and big landowners, and go to swell the ranks of the urban slums.

#### BOX 4 THE UNDP PRAISES THE GREEN REVOLUTION

In spite of these arguments, backed by demonstrations of hundreds of thousands of peasants and small farmers, the 1997 Report on Human Development contains deplorable praise for 'progress' made thanks to the Green Revolution. 'The first Green Revolution has helped millions of small farmers and urban consumers get out of poverty, thanks to technological breakthroughs in wheat, corn and rice farming in high-potential agricultural areas' (UNDP, 1997). Yet only three years earlier, the Report had explained the 1943 famine in the following way: 'nature is doubtless responsible for local food shortages, but it is human beings that turn these shortages into large-scale famines. Hunger is not due to an absence of food, but to a lack of means for acquiring this food' (UNDP, 1994). But now, the UNDP is calling for a second Green Revolution – this time to benefit poor farmers in the poorest areas! This was the very argument used by the World Bank to promote the first Green Revolution.

#### The Power to Intervene in National Economies

Although the World Bank had only limited means at its disposal in the period preceding McNamara's stewardship, it was able to set up a network of influence that would be of great service later on. The Bank set about creating demand for its services in the Third World.

The influence the Bank enjoys today derives in large part from the patronage networks it established in countries that later became its customers and, of course, its debtors. The World Bank pursued a policy of active influence-peddling in order to build up its network of debtors.

From the 1950s onwards, one of the Bank's main objectives was to 'build up institutions'. This building programme usually involved the creation of autonomous agencies within governments, agencies which became long-term borrowers from the World Bank. Such agencies were intentionally founded in such a way as to be relatively independent financially from their governments and free from the control of local political institutions. They became natural relays for the Bank, to which they owed their very existence.

The creation of these patronage networks was a cornerstone of World Bank strategy for getting involved in the economic policies of Third World countries.

Obeying no rules but their own (often drawn up in keeping with World Bank recommendations), staffed by big-name local technocrats who shared World Bank aims, championed and admired by the Bank, these agencies served to create a stable and reliable source for what the Bank needed most: 'viable' loan proposals. They also provided a parallel power base through which the Bank was able to transform national economies – nay, entire societies – without having to bother with the 'cumbersome' process of democratic control and debate.

The implications of such a policy are most worrying. The International Legal Center (ILC) in New York carried out a study of the Bank's involvement in Colombia between 1949 and 1972. The ILC report concludes that the Bank's autonomous agencies had a profound impact on political structure and social development throughout the region. They weakened 'the system of political parties and the respective roles of the legislature and judiciary' (Rich, 1994).

By the 1960s the Bank had set up its own new mechanisms for continually intervening in the internal affairs of borrower-countries. The Bank, however, emphatically denies that such interventions are political in nature. On the contrary, it insists that its policies in no way impinge on power structures, and that political and economic matters occupy two discrete spheres.

## World Bank Support for Dictatorships

Article IV, section 10 of the World Bank statutes stipulates:

The Bank and its representatives shall not interfere in the political affairs of any member-state. They are forbidden to be influenced in their decision by the political character of the concerned member or members. Only economic considerations can influence their decision, these considerations will be weighed without bias, with the goal of meeting the objectives (set by the Bank) stipulated in article I.

The prohibition on looking at ‘political’ and ‘non-economic’ factors in the Bank’s operations – a key element of the institution’s charter – has been systematically violated.

When responding to charges that it plays political favourites, the Bank has even pointed to articles from its charter that prohibit interference in the political affairs of member-states. In fact, these parts of its charter have often been little more than a smoke screen for World Bank support of dictatorial regimes.

Indeed, article IV did not prevent the Bank from refusing loans to Brazil and to Chile when their governments were not to its liking. In the beginning of the 1960s, the Bank denied credit to the democratically elected Goulart government in Brazil. After the 1964 military coup (which set up a military dictatorship that lasted for 20 years), however, loan totals from the Bank went from zero to an annual average of \$73 million for the remainder of the 1960s, and to just under \$500 million per year in the mid-1970s.

Under the democratically elected government of Allende (1970–73), Chile did not receive Bank loans. After the 1973 military coup, under the Pinochet regime, the country suddenly became creditworthy.

In the late 1960s and during the 1970s, under the presidency of Robert McNamara, the Bank gained notoriety for backing anti-democratic regimes that tortured and murdered their own citizens. In 1965, for example, the Bank openly defied a resolution from the General Assembly of the United Nations calling on all UN-affiliated agencies (including the Bank) to suspend financial assistance to the South African apartheid regime. But the Bank argued that its article IV legally obliged it to ignore UN resolutions. Even a personal plea

from UN Secretary General U Thant to then World Bank President George Woods, was unheeded.

It was McNamara who insisted that the Bank provide credit to the brutal Indonesian dictatorship established in the wake of the 1965 massacre of more than 500,000 communists (McNamara, 1973).

Following McNamara's departure, the Bank pursued the same policy, in line with US foreign policy.

Another UN institution, the UNDP, also has a thing or two to say about US and World Bank support for dictators:

In fact, aid provided by the USA in the 1980s is inversely proportional to respect for human rights. Nor have multilateral donors [the World Bank and the IMF] seemed to be overly concerned with such considerations [democracy]. Indeed, they seem to prefer authoritarian regimes, they argue without batting an eyelid that such regimes promote political stability and are better able to manage the economy. When Bangladesh and the Philippines ended martial law, their respective share in overall World Bank loans fell. (UNDP, 1994)

### **World Bank Power Surges during Robert McNamara's Stewardship**

In 1968, Robert McNamara said: 'The only limitation on the activities of the World Bank would be the ability of member-countries to use our assistance in an efficient way and to pay back our loans according to the terms and conditions that we determine' (McNamara, 1973).

In 1969, he said: 'The International Bank for Reconstruction and Development is a body that makes investments whose objective is development, it is neither a philanthropic institution nor a social welfare agency' (McNamara, 1973).

The Bank's activities grew in number in the 1960s and particularly in the 1970s. From 1968 to 1981, under McNamara (US Secretary of Defense during the Vietnam War), the World Bank was engaged in a lending frenzy. McNamara made it clear that the career prospects of loan officers were directly linked to the number of projects in their portfolio.

The bigger a project, the greater the likelihood of receiving Bank financing (George and Sabelli, 1994; Rich, 1994). This quantitative

approach, and the pressures applied on Bank associates for them to draw up and promote expensive projects to borrower-countries, led these countries to take on excessive debt.

During the first 20 years of its existence, the World Bank (IBRD and IDA) loaned out a total of only \$10.7 billion. During McNamara's first five years as president, from 1968 to 1973, loan totals increased at a near exponential rate. The Bank backed projects worth \$13.4 billion over these five years (George and Sabelli, 1994; McNamara, 1973).

McNamara had a near-fanatical belief in quantitative methods and administrative models seen as universally valid and capable of solving the whole range of problems. At the beginning of the 1960s, he said: 'Running any department of an organisation is exactly the same, whether one is dealing with the Ford Motor Company, the Catholic Church or the Ministry of Defense ... At a certain stage, all problems are the same.' In 1967, he said, 'Management is the way social, economic and political change – indeed, change of all kinds – is spread throughout society.'

McNamara saw himself as a 'development planner' (McNamara, 1973). In his eyes, the World Bank was playing a 'vanguard' role in development assistance by planning it from start to finish.

The planning mechanism was central to his approach, as set out in his 1973 book: the Bank should lay down effective methods for 'family planning and for the public administration responsible for population control'; the Green Revolution begun in the mid-1960s should be better planned across the board; planning for major public works would provide work to the unemployed and build up infrastructure.

He also got the Bank to draw up plans for massive five-year loans to borrower countries. These plans were detailed in the Country Programming Papers, which set objectives and priorities for all the Bank's lending to a given country, based on the work of 'economic missions in the countries' and the reports they produced. These economic reports and the overall country files joined the ranks of the Bank's most confidential documents, just a step below the Bank's internal memoranda. In some cases, even government ministers of the country concerned could not examine these major plans. In the poorest and smallest countries, such secrecy was seen as proof that their economic fate had been taken over by international trustees.

McNamara's point of view greatly amplified tendencies that already existed in the Bank. These tendencies bolstered its institutional power while further neglecting the complex and distinct social realities of countries lumped together in the 'developing countries' category. Easily quantifiable objectives were defined to measure progress. Complex social realities were reduced to so many sets of target figures and group totals. Everything came to be seen in terms of profitable undertakings, gradually increasing production and productivity, the evolution of earnings, and so on.

It was not too difficult to foresee the results of such an approach, applied everywhere in an identical fashion. At best, it would be ineffective; at worst, it was so inappropriate from a social and environmental angle as to condemn many projects to failure.

### **Development and the Security of the 'Free World'**

It was also under McNamara's stewardship that the Bank began to build up its 'new style' portfolio of projects aimed at combating poverty. The main objective was rural development and agriculture – a sector whose share of Bank loans rose from 18.5 per cent in 1968 to 31 per cent (\$3.8 billion) in 1981.

The World Bank joined the struggle against the spread of communism in the Third World. It set up projects aimed at alleviating poverty in both the cities and the countryside. These included housing improvements, the installation of water pumps and power lines. For the first time, health and education projects also accounted for a significant share of the Bank's undertakings.

It was as part of his crusade against communism that McNamara opted to tackle the scourge of absolute poverty. Never before had the Bank seen its work for development as part and parcel of a programme to alleviate poverty. But McNamara was convinced that if steps were not taken against growing inequality in the distribution of wealth in developing countries, from time to time there would be popular uprisings threatening capitalist countries in the centre.

McNamara's time at the helm of the World Bank coincided with the spread of struggles for liberation and revolution: the Portuguese Revolution of 1974, freeing Africa's last colonies; final defeat for American troops in Vietnam in 1975; and the Nicaraguan Revolution of 1979. There were also major social and political crises, even in the capitalist heartland: the Black civil rights movement and

the anti-Vietnam War movement in the US in the late 1960s and early 1970s; the 1968 student movements in France, Germany and Mexico; massive workers' strikes in France in May 1968, in Italy in 1969–70, and in the so-called socialist countries (the Prague Spring of 1968). McNamara was an old hand at such things, having himself ordered mass napalm bombings of Vietnam.

These liberation movements were very much a spanner in the works of the World Bank's 'development' plans. As a result, the Bank pumped in increased credit to strengthen the Third World's economic ties to the world market and its political ties to the capitalist world. These new loans were part of a strategy aimed at 'containing' the spread of the broad movement for emancipation.

In 1968, while he was still Secretary of Defense, McNamara declared: 'Ernesto Che Guevara's death in Bolivia in the fall of 1967 delivered a severe blow to the hopes of the Castroite revolutionaries. But this is not a sufficient response to the problem' (McNamara, 1968).

In 1972, he made a very clear speech in this regard at the meeting of World Bank governors:

Too little, too late, is history's most fitting epitaph for regimes that have fallen in the face of the cries of the landless, unemployed, marginalised and oppressed, pushed to despair. As such, there must be policies designed specifically to reduce the poverty of the poorest 40 per cent of the population in developing countries. This is not just the principled thing to do, it is also the prudent thing to do. Social justice is not only a moral obligation, it is also a political imperative. (McNamara, 1973)

Thereafter, McNamara called for agrarian reform to provide land to poor farmers and limit the land holdings of big landowners. He proposed that reforms be made to the credit system of developing countries, to give small farmers access to loans. He backed public works projects aimed at improving the lot of the poorest sectors. In short, McNamara wanted the multilateral public institution he headed to pursue a growth strategy requiring that the World Bank itself be given greater funds and power. McNamara was scarcely interested in having the governments of the South themselves play a role in redistributing wealth. Rather, he wanted the World Bank itself

to compensate for the ingratitude of the North towards the South, as well as for the weakness of the South's governments.

McNamara's above-mentioned proposals were not implemented anywhere by the World Bank. Furthermore, McNamara's development plan never considered the potential of increased trade between the countries of the South themselves. He never acknowledged the need to build up regional blocs in the South – blocs which could create complementarities favouring a cumulative process of regional growth that would reduce the South's dependence on the North. The only relationship worthy of his attention was between the countries of the South and those of the North – in which those from the South always come off worse since it is the developed countries that set the rules of international trade.

It is none the less noteworthy that McNamara's declarations and proposals stood in sharp contrast to the aggressive neo-liberal turn taken in the 1980s. In his own way, McNamara belonged to the old school. This does not change the fact that he played a key role in laying the groundwork for the neo-liberal offensive. The waning gap between his words and his deeds was eliminated by the neo-liberals – who jettisoned all talk of planning, state control and development.

## The World Bank and the Third World Debt Crisis

It is striking that the World Bank has no department that conducts after-the-fact analyses of its forecasts in order to determine how accurate they have been and, if necessary, what corrections could be made in future.

Its nonchalant attitude towards Third World debt is very revealing. It is nonchalant, but not entirely unaware of the problem. Indeed, as far back as the beginning of the 1970s, McNamara felt Third World debt was a problem. He wrote:

By the end of 1972, the debt totalled 75 billion dollars and annual servicing was more than seven billion dollars. Debt servicing rose by 18 per cent in 1970 and by 20 per cent in 1971. The average rate of increase of the debt since the 1960s has been almost twice as high as the rate of increase in the export revenues that these countries must use to service the debt. This situation cannot continue indefinitely. (McNamara, 1973)

However, as a result of its policies, the World Bank actively contributed to creating the conditions that led to the debt crisis.

It would be wrong to suggest that there has been some kind of plot deliberately hatched by the Bank. The World Bank is one of the guilty parties, but it did not premeditate the crime. Once the crime had been perpetrated, however, it fully profited from it in both the figurative and the literal sense. The Bank has raked in profits on the backs of the indebted countries and seen its power grow by leaps and bounds.

## WORLD BANK JUSTIFICATION FOR INCREASED INDEBTEDNESS

Until 1973, McNamara argued that the growth-oriented programmes of developing countries had to be backed. Government assistance from the developed countries was totally insufficient, he said, and these same developed countries were not dismantling discriminatory measures against imports from developing countries in spite of promises to do so. McNamara even publicly criticised the North's protectionism and the low level of official development assistance (ODA) on numerous occasions (see McNamara, 1973). The World Bank, he argued, should therefore lend increasing sums to developing countries to help them achieve consistent growth rates and earn sufficient revenues to pay back their debts. As a result, the World Bank set itself the mission of providing as much credit as possible to developing countries, as a way to make up for inadequate levels of ODA.

This approach was clearly at odds with McNamara's own warnings concerning debt levels whose rate of growth outstrips that of export earnings.

From 1973 onwards, following the rise in the price of oil and other raw materials, McNamara argued that developing countries could use borrowed funds to develop their communications infrastructure, increase electricity production and boost export-oriented activities. His underlying assumption was that the price of these countries' exported goods would continue to increase on the world market, or remain stable at the very least. As a result, he forecast that their export earnings would continue to rise thanks to increases in export volumes. These increased earnings, he said, would enable developing countries to service their debts (interest and principal) while reinvesting a portion in the improvement of export-oriented industries. This was expected to have a cumulative effect, leading to or accelerating development while anchoring these countries firmly in the camp of the Western countries. McNamara argued that debt obligations were a powerful material incentive for developing countries to modernise their export-oriented agricultural and industrial sectors. This line of reasoning was repeated in a number of his talks and writings. The virtuous circle of 'debt-increased exports-debt servicing' would develop the South and boost world economic growth. The actual course of events has given the lie to this

approach: as we have seen, the prices of exported goods plummeted in the 1980s at the same time that interest rates rose sharply. This led to the financial asphyxiation of indebted countries. As for McNamara, he stepped down as president of the World Bank in 1981, a few months before the crisis exploded in everyone's faces.

## THE WORLD BANK'S TUNNEL VISION

Although the debt crisis only burst out into the open in August 1982, there had been no shortage of ominous signs. Warnings had been made. Still, the World Bank obviously underestimated the dangers of the situation. One need only look at its 1981 annual report on global development: 'These trends suggest it will be more difficult for developing countries to manage their debt, *but they do not presage any generalised problem*. This analysis is confirmed in projections for the balance of payments in the 1980s, based on various probable scenarios' (emphasis mine).

The 1982 report was released just a few weeks before the explosion of the Mexican crisis. It provided an even more blinkered and optimistic analysis of the situation (Edwards, 1995). In its 1983 report, the World Bank said that there were liquidity problems that had only affected specific countries, and not entire regions or groups of countries. Yet about 30 countries followed closely in Mexico's footsteps. The 1984 report provided optimistic projections until 1990 in the relationship between Latin American export earnings and debt-service payments. In fact, the exact opposite occurred (Edwards, 1995). For a number of years, the Bank continued to promote the illusion that the debt crisis was above all a liquidity crisis, instead of recognising that the debtor countries were actually insolvent. These debtor countries were not simply experiencing liquidity problems, they were in the midst of a fully-fledged crisis, of a long-term structural nature.

In 1986, with the debt of developing countries well in excess of one \$1 trillion (\$1,000 billion), the Bank said that by the mid-1990s this debt total would at the very worst be on the order of \$864 billion. By 1995, however, total Third World debt was \$1,940 billion – double the forecast amount.

The IMF made exactly the same errors. In its quarterly report *Economic World Outlook* of April 1982, the IMF said that, in spite of a number of payment problems, Latin America would obtain major

loans from the international financial community. In its October 1982 report, the IMF said that recession would be avoided. In its 1984 reports, the IMF seconded the World Bank in calculating that the ratio between debt servicing and export earnings would improve for Latin America. In fact, the exact opposite occurred.

### WRONG FORECASTS ON WORLD MARKET PRICES

The World Bank was just as arbitrary and wrong in its forecasts of the export revenues meant to rescue developing countries from debt. Its 1981 predictions for the price of African raw materials were out by 62 per cent for minerals and metals; by 156 per cent for oil; by 180 per cent for fats and food oils; by 103 per cent for beverages; by 60 per cent for lumber; and by 97 per cent for non-food agricultural products (George and Sabelli, 1994). The Bank could have easily foreseen that – with all countries of the South seeking to maximise exports in order to meet debt obligations – the prices of the exported products would drop.

In 1991, the Bank repeated the mistake. Its international economy division continued to put out optimistic forecasts which, within two years, were also revealed to be thoroughly groundless. Real market prices were significantly lower than predicted: 47 per cent lower for coffee; 56 per cent for cocoa; 74 per cent for sugar; 35 per cent for rubber; and 52 per cent for lead, to name but a few.

The 1991 report persists in forecasting that raw material prices would continue to rise during the 1990s, saying that the GNP of developing countries would rise by 5 per cent annually between 1992 and 2002.

### THE WORLD BANK AND THE DRAIN ON THE SOUTH'S RESOURCES

World Bank leaders have calculated the return on funds deposited in the Bank by industrialised countries as their participation in its capital. The Bank's official publications say nothing about this, but an idea of its profits is provided in specialised publications aimed at the business community. The following is an extract from a speech given to an audience of Belgian employers in 1986 by Jacques de Groote, Belgium's executive director at the IMF and World Bank, and

published in the bulletin of the Belgian employers' federation. The extract speaks for itself:

The advantages that Belgium, like all World Bank member countries, acquires through its participation in the group's institutions can be measured by looking at the flowback. The flowback is the relationship between, on the one hand, total spending by the International Development Association (IDA) and the World Bank on a country's companies based on contracts secured by these companies and, on the other hand, this country's contribution to the World Bank and IDA. As a result, the flowback is the relationship between what companies obtain through the sale of equipment and consulting services, and what Belgium contributes to the World Bank and IDA. The flowback from the World Bank to the industrialised countries is significant and continues to rise; from late 1980 to late 1984, it has risen from seven to ten for all industrialised countries taken together. Which means that for every dollar put into the system, industrialised countries got back seven in 1980 and 10.5 now. (FEB, 1986)

## THE WAPENHANS REPORT ON THE WORLD BANK'S FAILURES

Do the World Bank's loans at least produce satisfactory results? In February 1992, the Bank's vice-president, Willi Wapenhans, carried out a confidential study evaluating projects financed by the World Bank – some 1,300 projects in 113 countries. The conclusions of the study are shocking: 37.5 per cent of projects are evaluated as being unsatisfactory upon conclusion (up from 15 per cent in 1981), with only 22 per cent of financial commitments seen to be in line with Bank directives.

### **Yet the Profits keep Rolling In**

The Wapenhans Report also reveals the contradiction between the World Bank as a financial institution and the World Bank as the development agency it is supposed to be. The Bank seeks to conceal the way it benefits from the transfer of resources from the South into its coffers (\$17 billion in 1992) by loaning out even more, thereby increasing the debt burden still further (Ferié, 1994).

The Bank is a profitable undertaking. Between 1988 and 1991 its annual operating surplus systematically hit the \$1 billion mark; in 1992, it was \$1.65 billion; by 1993, it had reserves totalling \$14 billion.

### SPRING 1997 AND THE URGENT NEED TO LOAN

In the spring of 1997, according to one of its Belgian administrators, Luc Hubloue, unless the Bank urgently used its surplus of inactive capital, it would be faced with the threat of a major scaling down of its operations. According to Hubloue, the World Bank had a lot of unused lending capacity. 'The World Bank should become more attractive in order to "activate" remaining funds' (Agence Belga, 28 April 1997).

Hubloue suggested a number of ways for using the international financial body's resources in a more productive fashion in order to face up to increased competition from the commercial banks.

He argued that the Bank should be willing to co-finance projects, primarily in those countries that already have access to private capital. Such loans could be made within the framework of investment programmes drawn up by the target country – thereby reducing the Bank's project preparation time. He pointed out that project preparation was a long and complex process that often lasted two years. So long, he said, that some countries – such as Brazil – preferred dealing with commercial banks, even when their interest rates were higher.

A few months later, though, the capital of the IMF and World Bank combined would not be enough to stave off financial catastrophe in Asia.

### SUMMER 1997: YET ANOTHER FINANCIAL CRISIS

1982, Mexican debt crisis. 1994, second Mexican crisis. 1997, crisis unfolds in East and Southeast Asia. On each occasion, the World Bank was unable to foresee the outbreak of crisis. Just as Thailand and three other Asian 'dragons' began to feel the effects of the crisis, the World Bank had this to say about them in its 1997 report on global debt:

The debt situation remains healthy. Although growth of overall debt has surpassed export growth, the ratio between total debt and export earnings has been maintained at moderate levels. Total debt was worth 99 per cent of annual export earnings in 1996, much lower than the 146 per cent average in middle and low-income countries. (World Bank, 1997)

Yet any serious analysis of the figures provided by the Bank itself, in the very same report, would have drawn a different conclusion. Private sector debt had risen sharply in 1996, without any guarantee whatever on this debt. Short-term high-interest debt had also surged. There had also been a significant increase in highly volatile portfolio investment.

When the crisis finally hit, the World Bank proposed the same remedies that have caused so much human suffering elsewhere and failed to restore growth into the targeted economies.

# Structural Adjustment Programmes

## 'FLEXIBILITY'

It is noteworthy that the same single word appears indiscriminately in economic policy recommendations – whether these are made to industrialised countries, to the Third World or to countries of the former 'socialist' camp. The neo-liberal turn has given rise to a near-monolithic slate of recipes for all the countries of the world, whether in the North or South. The watchword is 'flexibility'. In the North, this has meant dismantling a number of key institutional safeguards and gutting the social gains that, initially, went hand in hand with the successes of postwar growth and, later, progressively became a hindrance to capitalist profitability and accumulation. In the South, it is state intervention as such that has become the target of the 'letters of intention' that debtor countries negotiate with the IMF, which demands policies of social austerity (Coutrot and Husson, 1993).

While the IMF has had ties with the countries of the periphery for a long time, it has focused much more attention on them, and seen its power there grow, since the outbreak of the debt crisis in the 1980s. As for the World Bank, we have seen how it has played an ever more important role in the periphery since the end of the 1960s.

From the beginning of the 1980s onwards, the World Bank and IMF have teamed up to manage the debt crisis and implement adjustment policies.

They have at the same stroke become large-scale debt collectors.

One major paradox is that the IMF and World Bank have continued to grow in strength and stature even though their stated objective of restoring long-term growth has not been met and even though their policies have actually heightened financial instability. It is worth noting, however, that since the 1994 Mexican crisis, the IMF has had the upper hand over the World Bank when it comes to defining government policies. The IMF has come out even further on top in the wake of the 1997–98 Asian crisis. The World Bank remains in charge when it comes to dealing with the poorest countries, dealing with NGOs (in order to ‘co-opt’ them) and setting up programmes for the poorest sectors of the population in countries of the Periphery.

As for the other omnipresent word, ‘adjustment’, to what exactly are countries of the South expected to ‘adjust’? The world economy is not a united whole, it has a hierarchy. Developing countries cannot merely imitate policies pursued in industrialised countries at some point in the past. It is clear, therefore, that structural adjustment of these countries to the industrialised world cannot offer any real prospects for development. Quite the opposite, in fact.

## THE STATED OBJECTIVES OF ADJUSTMENT LOANS

The defining essence of adjustment loan objectives can be found in Article 1 of the IMF Charter: priority must be given to ‘balanced growth of international trade’. As such, countries that always import more than they export need financial support so that they are not excluded from international commerce. Without loans, they cannot buy. The IMF explains that such interventions not only enable these countries to continue to participate in international trade; as a result of structural adjustment programmes, they also lead them to increase such participation (Lenain, 1993; Christin, 1995; Norel and Saint-Alary, 1988).

IMF statutes also stipulate that it should ‘adopt policies that aim to help members resolve their balance of payments difficulties and to ensure that the target countries take appropriate measures for the temporary use that will be made of these resources’. It is on this basis that the IMF intervenes directly in borrower countries to set their economic policies.

Adjustment programmes are the best possible guarantee that a country will continue to service its debts. Indeed, the central priority

of these programmes is export revenue. A high percentage of these export earnings soon find their way back into IMF and World Bank coffers – since they have priority over other lenders – and then into those of the private banks (in the London Club) and those of Paris Club member-states. Members of the London and Paris Clubs clearly have a stake in working with the IMF and World Bank.

## DEBT AND STRUCTURAL ADJUSTMENT

Once countries are in debt, the IMF and the World Bank can force them (through a kind of economic blackmail) to reorient their macro-economic policies in the way seen to be most in step with the interests of international creditors.

The objective is that of imposing a relationship in which debt-servicing becomes a matter of course, while keeping debtor nations in a straitjacket that prevents them from embarking upon an independent national economic policy (Chossudovsky, 1994).

Structural adjustment policies have been implemented on a grand scale. Although conditions vary greatly from one ‘adjusting’ country to the next, the same economic remedies are applied the world over. Acceptance of the Fund’s prescriptions – spelled out in economic stability pacts – is not only a precondition for obtaining loans from multilateral institutions, it is also a green light for the London and Paris Clubs, for foreign investors, commercial banking institutions and bilateral lending agencies (Lenain, 1993).

Not surprisingly, countries that do not accept the IMF’s corrective measures encounter tremendous difficulties in restructuring their debts and obtaining new development financing and international aid.

The IMF can also seriously undermine a country’s economy by blocking access to the short-term credit needed for financing ongoing trade in basic goods.

The IMF and World Bank have increasingly been called upon by holders of capital in the North to collect ‘bad loans’ owed to commercial banks.

Fresh funds (in the form of short-term loans) were provided to force developing countries to pay back their debts to commercial banks and foreign governments. Fresh funds were provided to pay off old debts (Chossudovsky, 1994).

The international financial institutions refinanced old debts, and this became a method for forcing Third World countries to pay back their debts as well as overdue payments on these debts.

For example, after the brutal repression of riots in 1989, the Venezuelan government had its 'bad debts' turned into shares guaranteed by the international financial institutions. Not a cent from this IMF and World Bank rescue package actually remained in the country.

More recently, the IMF, World Bank and Asian Development Bank loans made to South Korea, Thailand, Indonesia and the Philippines, have been aimed at repaying the short-term debt owed by these countries (above all their private companies) to the big speculators and institutional investors from the North and from within the region.

## MACROECONOMIC REFORM AND THE STRUCTURAL ADJUSTMENT PROGRAMME

Loans from international financial institutions (including the regional development banks linked to the World Bank) are provided as balance of payments support – that is, short-term loans for financing imports and debt-servicing. These loans are usually provided on condition that a certain set of policies be implemented. In other words, these are political loans that are provided by the international institutions on condition that the government in question adopt a programme of economic stabilisation and structural economic reforms in line with their demands.

Agreements for such political loans explicitly call for a scaling-down of internal undertakings. Unlike conventional loans, these loans are never linked to investment projects.

(Author's note: I have based this section, and Chapter 12's description of the two phases of adjustment, on Michel Chossudovsky's account in *La Pauvreté des nations* (CADTM, 1994) and *The Globalisation of Poverty* (1997). I have supplemented his analysis with my own, for which additions I am solely responsible.)

Invariably, substantial reforms must already be under way before any structural adjustment loan can be negotiated.

Governments must prove to the IMF that they are 'genuinely engaged in implementing economic reform' before loan negotiations can begin in earnest.

This process often unfolds in a framework known as the 'IMF's secret programme'. The IMF lays down a series of policy guidelines and gives technical advice to a government – without there being the slightest backing in the form of a loan. The Indonesian government, for example, had to close a number of large banks in November 1997 before it could receive the funds promised by the IMF. The forced bankruptcy of these banks provoked wide-scale panic within the population. The IMF had to recognise this tactical error at the beginning of January 1998 (*New York Times*, 14 January 1998). It then got the Indonesian dictator to sign an agreement of submission to the IMF under the imperious gaze of Michel Camdessus, broadcast live on national and international television.

A government is expected to carry out the 'secret programme' to the IMF's satisfaction before formal negotiations on a loan agreement can begin in earnest.

Once the loan is disbursed, the policy conditions are closely monitored on a quarterly basis by the Washington-based institutions.

Loan payments are made in several instalments and can be suspended if ever the required reforms no longer appear to be 'on track'.

## THE DIVISION OF LABOUR BETWEEN THE IMF AND WORLD BANK

It should be noted that the IMF and the World Bank stand shoulder to shoulder when it comes to implementing structural adjustment programmes.

In a number of debtor countries, the government sets out its priorities in what is known as a 'policy framework paper' or 'PFP'. Officially, it is drawn up by the debtor country, but in fact this takes place under the supervision of the Bretton Woods institutions.

There is a clear division of labour between the two Bretton Woods sister institutions. On the one hand, the IMF takes care of key negotiations over structural matters, keeping in mind the exchange rate and the budget deficit. On the other hand, the World Bank gets directly involved in the structural reform through its local representatives and its various technical missions. Moreover, the World Bank also has people working in the key government ministries responsible for laying down the specific framework of the structural adjustment. Reforms to healthcare, education, industry, agriculture, transport

and the environment are all drawn up under the watchful eye of the World Bank.

The Bretton Woods institutions have a variety of lending mechanisms at their disposal and are quite prepared to use them, on condition that the country in question follow their policy recommendations.

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# The Two Phases of Structural Adjustment

It can be argued that structural adjustment is divided into two distinct phases. ‘Short-term’ macroeconomic stabilisation – involving currency devaluation, price liberalisation and budget austerity – is followed by the implementation of a number of more fundamental structural reforms.

Often, however, these structural reforms are implemented at the same time as the ‘economic stabilisation’.

## FIRST PHASE: SHORT-TERM ECONOMIC STABILISATION

### **Devaluation**

Devaluation and the creation of a uniform exchange rate (eliminating exchange controls and multiple exchange rates) are vital tools in government policy. It is worth noting that devaluation is explicitly carried out by the Bretton Woods institutions. The IMF plays a central role in the decision to devalue.

The exchange rate determines both the real prices paid to the direct producers and the real value of their earnings. These real earnings are reduced as a result of price rises and the IMF-dictated de-indexing of salaries.

In some cases, devaluation provides a basis for the short-term reactivation of the entire export-oriented commercial agriculture sector. More often, however, profits go only to the big commercial operations and agricultural and industrial exporters.

In the run-up to these devaluations, the wealthy classes are given enough time to convert their local currency into hard currencies before the local currency is devalued. After the devaluation is carried out, they convert their hard currency back into local currency. When the CFA franc (currency used in 13 of France's former West African colonies) was devalued in January 1994, those holders of capital who had changed their money into hard currency in time saw the value of their capital double in one fell swoop.

The short-term gains a country experiences after a devaluation are inevitably erased once other competing Third World countries are themselves forced to devalue. The Bretton Woods institutions often demand a currency devaluation as a condition for entering into negotiations on structural adjustment loans.

### Budget Austerity

The IMF imposes very precise guidelines, taking stock of the budget deficit and the breakdown of government spending. These guidelines affect both operational spending and development spending. The Bretton Woods institutions dictate the dismissal of public sector employees and drastic cuts in spending on social programmes.

These austerity measures affect all categories of public spending.

When the debt crisis began, the international financial institutions restricted their intervention to setting budget-deficit objectives that would enable the country in question to meet its debt-servicing obligations. Since the end of the 1980s, the World Bank has tightly controlled the very structure of public spending through what is known as the Public Expenditure Review. In this way, the breakdown of each ministry's spending is supervised by the Bretton Woods institutions. The World Bank recommends an 'effective transfer of costs' from regular areas of spending to those 'with a specific objective'. According to the World Bank, the goal of 'public spending supervision' is to 'promote poverty reduction through effective and efficient spending'.

The structure of investment spending is also forced to target a 'specific objective'. The Public Investment Programme, also under the supervision of the World Bank, demands that governments severely reduce the number of investment projects. The concept of 'investment to meet an imposed objective' is used to reduce spending on basic economic and social infrastructure to the bare minimum.

As for spending on social programmes, the international financial institutions have made a principle of recovering operating costs from users (patients in healthcare and the parents of children in the education system), and of gradually withdrawing the state from basic healthcare and education services. In the area of social spending, the concept of 'loans granted to meet an imposed objective' is applied to what are known as 'vulnerable groups'.

Austerity measures in the social sectors have meant a shift from funding for regular programmes towards programmes with imposed objectives. This has been the main reason for the collapse of the education sector, health clinics and hospitals. The process has enabled the Washington-based institutions to step in and don the mantle of saviours.

### **The Budget Deficit: A Moving Target**

The IMF sees the budget deficit as a moving target. First it fixes a budget deficit target of 5 per cent of GNP. The government meets this objective. In subsequent negotiations – or within the same loan agreement – the IMF reduces the target to 3.5 per cent of GNP, arguing that the government's spending plans are inflationary. Once the 3.5 per cent goal is reached, the IMF wants the deficit reduced to 1.5 per cent of GNP, and so on. The rationale behind this whole exercise is obvious: ensuring that state revenues go towards servicing the foreign debt (Chossudovsky, 1997).

### **Price Liberalisation**

This measure aims at eliminating subsidies and/or price controls. It has an immediate impact on real earnings, whether in the formal or informal sector. The deregulation of prices on grains for household use, and import liberalisation on food reserves from the North, are key components of this process. Subsidised European and North American agricultural products (Common Agricultural Policy subsidies in the case of the European Union) invade local markets. This reduces the earnings of local farmers, driving many of them to bankruptcy. In fact, it is not rare for the North's agricultural surpluses to be sold to the South at cut-rate prices.

Liberalisation programmes also have an effect on the prices of imported goods and raw materials. When combined with currency

devaluation, liberalisation measures boost the local price of imported inputs (fertilisers, herbicides, seeds, equipment, and so forth) and have an immediate impact on the price structure in most areas of economic activity.

### **Setting the Price of Petrol and Public Services**

The price of petrol is set by the state under the supervision of the World Bank. Increases in the price of petrol and public services (often by several hundred per cent) destabilise local producers. High domestic prices for petrol – often pushed up higher than the world-market price – are felt throughout the cost structure of domestic industry and agriculture. As a result, production costs are inflated well above prevailing local prices for goods, driving many companies to bankruptcy.

Periodic World Bank-imposed jumps in the price of petrol and oil products (implemented alongside import liberalisation for basic goods) create an ‘internal transit tax’, whose goal is to cut local producers off from their own internal market.

In many developing countries, the high cost of petrol paralyses the transport of goods within the country. The high cost of transport – imposed by the international financial institutions – is a key factor preventing small local producers from selling their products in city markets, where there is direct competition with agricultural products imported from Europe and North America.

Furthermore, the World Bank has been pushing for all government services to be offered at cost or transferred to the private sector. Not only healthcare and education (see below), but also communications: roads, electricity and water.

The fact that *even the poor are entirely prepared to pay for most infrastructural services*, makes it all the more possible to charge fees. Private-sector participation in management, financing and ownership will, in most cases, be necessary to give a commercial edge to infrastructure use. (World Bank, 1994) (emphasis mine)

### **De-indexation of Salaries**

The IMF imposes a reduction in real wages by de-indexing salaries and liberalising the labour market. This means removing cost-of-

living adjustment clauses from collective agreements and eliminating minimum-wage laws. Let us not forget that while real wages are one-tenth or even one-twentieth of what is paid in the advanced capitalist countries, structural adjustment programmes (SAPs) boost the price of basic household goods to levels seen in the developed capitalist world. In some cases, the prices are even higher.

## SECOND PHASE: STRUCTURAL ADJUSTMENT, THE REAL THING

Implementing ‘macroeconomic stabilisation’ is the condition for receiving IMF funds and a renegotiation of the external debt with the Paris and London Clubs. It is always followed by the implementation of ‘necessary’ structural reforms.

There is a division of labour between the IMF and the World Bank. The ‘necessary’ economic reforms are ‘encouraged’ with structural adjustment loans and sectoral adjustment loans from the World Bank. The structural reform package has ten main components:

### **1. Trade Liberalisation**

Protectionist tariff barriers are eliminated in order to make the domestic economy more ‘competitive’. In truth, trade liberalisation destroys industrial production for the domestic market and ‘liberates’ domestic capital from genuinely productive activities.

### **2. Liberalisation of the Banking System**

This means privatising state-owned banks and deregulating the commercial banking sector. The central bank loses control of monetary policy; interest rates are set on the free market by commercial banks. It is worth recalling that international agreements have opened up domestic banking to foreign commercial banks. The tendency is towards a weakening of domestic banking institutions, whether state-owned or private.

The IMF also dictates large increases in interest rates, in both nominal and real terms. This upward movement has a direct effect on domestic prices. It leads to the collapse of a country’s credit system, for both agriculture and industry. Local businesses are depressed by high interest rates; significantly tighter access to credit for the lower

classes – and even for the middle classes – means a plunge in consumption. Short-term credit continues for foreign trade, but the domestic banking sector grows further and further apart from the real economy. The policy of high interest rates seen in countries such as Mexico and Brazil has led to an accumulation of rentier capital (interested only in speculative financial operations).

This capital ‘liberated’ for various non-productive activities also gets entangled with trade in a variety of illegal items, giving a huge boost to the amount of dirty money floating around. Thanks to deregulation and the scrapping of exchange controls, it is also much easier to launder this money.

### **3. Privatisation of State-owned Firms**

There is always a link between the privatisation of state-owned companies and the renegotiation of a country’s foreign debt. The most profitable of these companies are snapped up by foreign capital or consortiums (involving foreign and domestic capital); the proceeds from these sales go towards the Paris and London Clubs. In this way, international creditors and MNCs come to control state-owned concerns with practically no real investment (see the Argentinian case later in the book). When a large number of countries sell their state-owned firms at the same time, the selling price plummets.

In keeping with privatisation and the reform of the banking system, the IMF demands a complete opening to capital flows. This fulfils two objectives:

First, foreign countries are allowed to repatriate their profits to the North in hard currency.

Second, thanks to the new climate of impunity, funds from secret accounts (including large sums of dirty money) are ‘repatriated’ to the South. Targeting the inter-bank market, these funds are soon converted into local currency to purchase state-owned companies and lands sold off as part of the Bretton Woods institutions’ privatisation programme.

### **4. Tax Reform**

Reforms aim to undermine domestic production, on both the demand and supply sides. The introduction of value-added taxes (VAT) and sales taxes, alongside changes in the structure of direct taxation, mean a greater tax burden for middle-income groups. Registering

small producers, as well as workers and vendors in the informal sector, is part of World Bank policies aimed at increasing taxes.

One scholar who supports IMF fiscal policies presents them in the following way:

The IMF encourages developing countries to undertake tax reforms in order to improve the allocation of economic resources. It therefore calls for the elimination of highly progressive income-tax schedules, since they create costly distortions in the way resources are allocated, open the door to tax fraud and boost administrative spending on debt-collection. IMF-recommended tax reforms also include an overhaul of taxes on foreign trade. (Lenain, 1993)

Patrick Lenain was at one point an IMF official. His remarks need no comment.

## 5. Land Privatisation

This policy involves issuing land titles while raising the ceiling below which access to property is denied. Such measures concentrate land in the hands of the wealthy few, while small farmers give up their land or mortgage it – only to become tenant farmers (sharecroppers) and seasonal agricultural labourers, or to join the ranks of the urban poor. The policy violates traditional land rights (in Africa and India, for example) and undermines the gains of authentic revolutionary transformations. In Mexico, for example, Article 27 of the Constitution – which enshrined the rights of indigenous peoples and poor farmers over collective lands known as *ejidos* (see Chapter 15) – was reformed earlier in the 1990s. This kind of land counter-reform has been the object of huge mobilisations of poor farmers in Egypt since 1997.

Land privatisation is also a way to repay the debt. The public land sell-off generates state revenues, which are channelled off to international creditors. Additional dirty money is also repatriated and laundered in the process, no questions asked.

## 6. Labour Market Reforms

The IMF and the World Bank recommend a loosening of labour market regulations. They argue that institutional rigidities limit

labour mobility and therefore cause unemployment (Lenain, 1993; Decornoy, 1995; Valier, 1996). In 1995, the World Bank devoted its entire Report on Global Development to the question of work, with the title *Work in a Borderless Economy* (World Bank, 1995). The report does not beat about the bush; far from it:

The quest for greater worker mobility will often mean implementing measures that allow the process of job destruction – which will include dismissals in the public sector – to follow its course [sic!]. (World Bank, 1995)

The World Bank is fiercely opposed to establishing or maintaining benefits for the long-term unemployed. Such benefits, goes the argument, are themselves a cause of unemployment. This is how the World Bank defines a ‘voluntarist labour market policy’:

[It is a] policy that seeks to help the unemployed find work and to improve the future prospects of those already working. This involves job-search assistance, training and job-creation initiatives. [On the other hand], a passive policy seeks to support the standard of living of those not working through monetary and other forms of assistance. (World Bank, 1995)

On the subject of wages, the World Bank comes out clearly against minimum wage legislation in Third World countries. It argues that in places where a minimum wage exists, it is ‘too high in relation to the country’s earnings and to other wages; even a small increase would reduce employment’ (World Bank, 1995). The conclusion is categorical: ‘The establishment of a minimum wage may be of some use in industrialised countries, but it is difficult to justify in low and middle-income countries’ (World Bank, 1995).

## **7. Trade Unions**

According to the World Bank, trade unions heighten the ‘privileges’ of workers in the formal sector and, as a result, ‘skew revenue distribution’ to the detriment of that ‘mass of workers who make up the active population in the informal and rural sectors’ (World Bank, 1995). The World Bank also finds that ‘trade unions have on occasion used their political power to oppose structural adjustment’

(World Bank, 1995). Nevertheless, the Bank is generous enough to tolerate the existence of unions: 'It is not necessary to refuse to recognise the rights of workers for revenue growth to occur' (World Bank, 1995).

## **8. Pensions**

In recent years, the World Bank has turned its attentions to pension reform. It actively promotes capitalisation-style pension systems based on the development of private pension funds. Such funds have grown in size and number in Brazil, Chile and Mexico – encouraged by the World Bank and big capital. In Brazil, a number of them have already run into problems; their managers are regularly implicated in corruption scandals.

## **9. Poverty and the Social Safety Net**

The Bretton Woods institutions have abandoned the goal of poverty eradication, or even of generalised poverty reduction. It is now about 'managing poverty' to make it 'bearable'. At the same time as cuts are made in social spending, programmes aimed at the poorest sectors are put together. This is meant to be a more effective system, yet these targeted programmes are combined with 'cost recovery' and the 'privatisation' of healthcare and education (people must now pay for medicine, medical consultations and school tuition).

The state has withdrawn from a number of sectors. A number of programmes previously run by government ministries are now managed by civilian organisations and NGOs which have taken on the functions of local government. With funding frozen by structural adjustment programmes (SAPs), small-scale production and handicrafts, subcontracting for export houses, training in local community groups, local employment schemes and other such activities have been incorporated into the 'social safety net'. In this way, local populations' fragile conditions for survival are maintained while the danger of social upheaval is contained.

## **10. Good Governance**

Although the World Bank denies it, since the beginning of the 1990s the granting of loans has been explicitly linked to a series of political

conditions. Good governance is one such condition. Although the implementation of SAPs absolutely requires a toughening of state authoritarianism, a façade of 'democratisation' is demanded as an adjunct to the 'free' market.

Since the beginning of the 1990s, after SAP implementation caused popular revolts in a number of countries, the World Bank has made good governance a priority. No surprise here: governments that implement SAPs lose their legitimacy in the eyes of the people, in as much as they appear to have lost all autonomy in their relations with the international financial institutions. The World Bank's response is to wash their hands of the entire matter, holding the defects of the governments concerned responsible for popular disturbances. Good governance has become another way to keep debtor countries in line.

In 1990, Barber Conable, World Bank president from 1986 to 1991, made the following declaration to a number of the Bank's African governors:

Let me be frank: political uncertainty and arbitrary rule in so many sub-Saharan African countries are major obstacles to their development. ... In saying this, I'm not talking politics. Rather, I'm speaking as a defender of increased openness and responsibility, of respect for human rights and the rule of law. Governability is linked to economic development. Donor countries are increasingly indicating that they will cease to back inefficient systems which do not meet the population's basic needs. (quoted in Lancaster, 1993)

For the World Bank, good governance is advantageous in two other ways. First, as a way to respond to ever more virulent international criticism: the Bank reassures its critics that funds provided to governments are managed in such a way that the 'aid' reaches the target groups, whether they be the poor or industrialists. Second, as a strategy for establishing a local network of non-governmental bases of support to meet its objectives: local and foreign NGOs, the media, religious institutions, chambers of commerce and employers' organisations. Governability has become such a priority for the Bank that in 1992 it published a special report, 'Good Governance and Development' (World Bank, 1992).

In 1985, Jean Leca provided the following definition of 'good governance':

The conformity of the governed results from a process complementary to that of the instrumental exchange of resources: the establishment of a reservoir of loyalty [author's note: within a framework of submission] that allows for the temporary acceptance of an unfavorable exchange. ... The legitimation of power can be defined as a process through which those that govern produce (or use) one (or more) system(s) of justification that enable them to appeal, should the need arise, to other centres of social power – to obtain effective obedience. (Leca, 1985)

In fact, the development of good governance has nothing to do with democracy. Rather, it is a set of policies aimed at obtaining consent from the oppressed. In many cases, talk of good governance is a figleaf for bolstering executive power and undermining social movements.

## THE FEASIBILITY OF AUSTERITY POLICIES

### **The OECD's Book of Government ABCs**

In a document meant for government eyes, Organisation for Economic Cooperation and Development (OECD) official Christian Morrison provides a number of recommendations. The document makes one's blood boil, and requires little comment. Here are some extracts (the subheads are my own):

First, on the objective of the report, called *The Political Feasibility of Adjustment* (Morrison, 1996):

The Development Centre strives to identify and analyse the problems that will arise in the medium term, both for OECD member-countries and non-member countries, and to determine trends in order to facilitate the development of appropriate policies. This series of *Economic Policy Notebooks* provides the results of the Centre's research work and is primarily meant for political leaders and decision-makers concerned by its recommendations.

Economic stabilisation and adjustment policies may cause social disturbances; they may even endanger a country's stability. In this *Economic Policy Notebook*, the political consequences of such programmes are analysed. From five in-depth studies and two key

country samples in Latin America and Africa, it can be observed that the political costs in terms of strikes, demonstrations and riots are very different from one stabilisation measure to the next. Our research has allowed us to define what a politically effective stabilisation programme should look like. It is possible to obtain the desired results while minimising political risks.

It is politically important to distinguish between stabilisation and structural adjustment. Indeed, stabilisation programmes involve a degree of urgency and therefore necessarily involve many unpopular measures – such as sharp reductions in household revenues and consumption through cuts in public-sector wages, subsidies and employment in the construction sector. On the other hand, structural adjustment measures can be spread out over a number of years; each measure creates winners and losers, in such a way that a government can easily obtain the backing of a coalition of beneficiaries to defend its line of march.

In the case of an adjustment, a government can put down social unrest to compensate for a drop in popularity stemming from spending cuts. But this approach brings with it a number of costs – increased dependence on the army and negative foreign reaction.

### *Timing*

A clear three to six month time lag can be observed between the announcement of stabilisation measures and the outbreak of strikes, demonstrations and other social unrest. This lag is interesting since it proves – contrary to the hypothesis of rational expectations – that political reactions occur when measures are implemented rather than when they are announced.

### *A Worthy Role Model: Hassan II*

That said, there is an example of a government successfully avoiding this risk, such as in Morocco in 1983–1985. There were two reasons for this political success: caution (price rises were moderate and gradual) and good public relations (for example, the king proclaimed that the poor should be protected from the effects of adjustment, using the slogan ‘austerity yes, pauperisation no’).

### *The Easiest to Impose*

A restrictive monetary policy, of severe cuts in public investment and operating costs, does not involve any risk for a government. This does not mean that such measures do not have social and economic consequences; but our reasoning here is based on the sole criterion of reducing the risk of social unrest.

There is usually no reaction to cuts in public investment, even when they are severe: a 40 per cent cut over three years in Morocco; 40 per cent over two years in Côte d'Ivoire; 66 per cent between 1982 and 1985 in Venezuela; and 60 per cent over two years in the Philippines.

### *Errors to be Avoided*

It is more difficult to implement a programme that equally affects all groups – that is, a socially neutral programme – than it is to implement a discriminatory programme. It is easier to make some groups bear the brunt of the adjustment while sparing others, on whom the government can count for support.

### *Total Control is Best*

In the face of adversity, the exceptional power of a head of state is of vital importance to the success of an adjustment. To be sure, governments have real capacities for resistance, thanks to the forces of law and order. But when riots threaten a regime's stability, the authority of a head of state is a major asset. This was true in Morocco, Côte d'Ivoire and Venezuela. In Venezuela, the president enjoyed this authority in 1990 since the same party controlled the presidency, the parliament and the main trade union.

### *Massive Privatisation and Dismissal: A Realistic Agenda*

Whether it is a matter of restructuring or privatisation, in many countries the reform of state-owned companies has been met with strong opposition, given that such reforms call into question a wide variety of interests.

Nevertheless, in many cases governments manage to carry out restructuring programmes which would be spurned in developed countries. In 1987, for example, Bolivian president Paz took a number of Draconian measures: two thirds of the state-owned tin-mining company's work force was dismissed, given that the company caused one third of the total annual public deficit. This led to a series of strikes and demonstrations, but the government stood its ground against the miners and remained in power for another three years.

### *Use the IMF Threat*

Let us recall that any adjustment is a politically risky affair. On the one hand, the opposition will blame all the costs of an adjustment on the government. On the other, if – fearing the opposition – the government holds off on adjustment until there is a financial crisis, it will have much less margin for manoeuvre to confront a political crisis. However, since no concessions are possible once a commitment has been made to the IMF, the government can reply to the opposition that it is duty bound to respect the IMF agreement, whether it wants to or not.

A government can explain that, since the IMF has imposed, for example, a 20 per cent reduction in the total wage bill, it has to choose between massive dismissals and cuts in salary. It can say that – in the interests of all concerned – it prefers the latter solution.

### *North and South: How to Undermine Trade Unionism*

If state sector employees are well organised, they can put up effective opposition to government decisions [to dismiss thousands of workers or to privatise]. Any policy aimed at weakening these forms of corporatism [NB Morrison uses the term 'corporatism' in reference to the trade union movement] is a desirable one. From an economic point of view, it means eliminating obstacles to growth; politically, the government attains the sort of margin for manoeuvre that can be precious in a period of adjustment. Some will object that such a policy would encounter resistance; but it is better for a government to wage this battle during a phase of economic buoyancy than when it is weakened in times of crisis. Such a policy can take several forms: minimum-service

guarantees, training of additional qualified staff, and, when possible, privatisation and division into several competing companies.

### *Measures to be Avoided*

The first precautionary measure to take is that of avoiding lenient policies in times of prosperity, since they create rights that are hard to challenge later on.

Many inhabitants of slums and poor neighbourhoods feel resentful and excluded in relation to the rest of the urban population. Looting and pillage of shops in wealthy neighbourhoods are outlets for these feelings. When a stabilisation measure – subsidy cuts, for example – leads to a sudden increase in the cost of basic items, these sectors of the population react with violent displays of their desperation. Indeed, such measures brutally lower their already very low standard of living to a point where the poor have nothing left to lose.

Following the example of Morocco in 1983–84, the prices of intermediate goods should be increased first, and not those of basic items consumed by poor households. If the prices of basic goods are increased, this should be done with moderation (less than 20 per cent at a time) and spread out over time.

### *Teachers' Strikes: Innocuous were it not for the Kids*

Teachers' strikes are of no direct concern to the government, but can be indirectly dangerous in as much as they give young people the time and opportunity to demonstrate.

### *A Winning Strategy for Cutting Salaries: Divide and Rule*

As part of a discriminatory policy aimed at avoiding a united front between all state sector workers, bonuses in only some departments can be eliminated. Of course, it is not advisable to eliminate bonuses to the army and police during difficult times when their services may be called upon.

Politically, nothing is more dangerous than implementing all-round measures to deal with macroeconomic problems. If state sector salaries are reduced, for example, they should only be reduced in one sector, while their nominal value is frozen in

another; it might even be advisable to increase them in some other politically important sector.

### *This is Easy*

There are a number of measures that create no political difficulties whatever. For reducing the public deficit, major reductions in public investment and reduced operations do not create political risks. If operations are reduced, it is important that the *quantity* of service not drop, even if this means reducing the *quality*. The operating budget for schools and universities, for example, can be reduced; but it would be dangerous to restrict the total number of students. Families react violently when their children are denied admission, but not when the quality of instruction gradually declines; furthermore, the school can progressively and selectively turn to families for help or eliminate this or that activity. This must be done bit-by-bit, in one school but not in the neighbouring one, in order to avoid generalised discontent.

### *For Strong Governments*

If a government is to have the necessary margin for manoeuvre for adjustment, it must be supported by one or two large majority-backed parties, rather than a coalition of small parties. This means that, in parliamentary elections, first-past-the-post constituency-based systems are to be preferred over proportional systems – or there should at least be some combination of the two. There are also ways to strengthen the executive branch, such as provision for temporary special powers and solely *ex-post* powers for the judiciary – to prevent judges from blocking the implementation of adjustment programmes *ex-ante*. Referenda can also be effective government weapons on condition that it alone has the right to initiate the referendum process.

## OVERALL EFFECTS OF IMF AND WORLD BANK POLICIES

### **Social Consequences of Structural Adjustment Programmes**

#### *Education*

Educational institutions have deteriorated; some have closed down, and teachers have either been dismissed for lack of funds or go for

months without being paid. This lack of operating funds has been compensated by the establishment of tuition fees, and special charges collected through parent associations and local communities. This has meant the partial privatisation of essential social services and the *de facto* exclusion of broad sectors of the population, especially in rural areas.

Two explicit conditions for adjustment loans are: a freeze in the number of diplomas awarded in teaching colleges; and an increase in the number of students per teacher. Education budgets are being slashed; children spend no more than a half-day at school. 'Two-way flow classes' are created as a result, with each teacher taking separate morning and afternoon classes (N'Diaye, 1995). Each teacher now does the work of two; the money saved goes towards repaying government debt.

These measures – carried out in the name of 'cost efficiency' – are still seen as falling short of the mark. In sub-Saharan Africa, some lenders have proposed a system whereby a teacher would lose his or her salary in exchange for a small loan for setting up their own 'private school'.

In this system, however, the Ministry of Education would still be responsible for maintaining the 'quality' of teaching.

In Africa, primary school enrolment had risen from 41 per cent of eligible children in 1965 to 79 per cent in 1980. By 1988, however, it had fallen back to 67 per cent (UNDP, 1992).

In Zambia, between 1990 and 1993, the government spent \$37 million on primary education and \$1.3 billion on debt servicing. In other words, for every dollar invested in primary education, 35 left the country to repay the debt. By 1995, the government was spending six times less on primary education than ten years before. In fact, 80 per cent of primary school expenses were borne by the children's families.

### ***Healthcare***

The international institutions claim that state subsidies to healthcare create undesirable 'market distortion' which 'benefit the rich'. Moreover, in the name of 'greater equity' and 'efficiency', they argue that users of primary healthcare services should pay user fees, even if they are from an impoverished rural community.

The World Bank also calculates that total annual spending of \$8 per person is more than enough to provide acceptable standards of clinical care.

This has meant an across-the-board collapse of preventive and curative medicine: medical supplies are lacking, working conditions are horrendous and staff are poorly paid, if they are paid at all. Public health facilities in sub-Saharan Africa, and some countries of Latin America and Asia, have actually become breeding grounds for sickness and infection. Indeed, lack of funding for medical supplies (including syringes and bandages) and equipment and price increases (recommended by the World Bank) for electricity, water and fuel (necessary for sterilising instruments, for example) have increased the likelihood of infection (including HIV).

Thanks to these Draconian austerity measures, there is now tremendous social inequality in access to healthcare services. The state has significantly withdrawn itself from health matters, the already high percentage of people lacking healthcare has become even higher, and even once eradicated infectious diseases are on the increase. The rise in infectious disease is also linked to cuts in public spending on preventive measures – such as improved sewers and access to drinking water.

The infant mortality rate (IMR) is a reliable indicator of a country's well-being. The implementation of SAPs in African countries has entirely eliminated the advances made with great difficulty during the previous 15 years. The most striking example is Mali, where the IMR had dropped by 23 per cent between 1960 and 1980, and increased by 26.5 per cent between 1980 and 1985. There are no IMR figures for Madagascar in 1965; in 1980, however, its IMR was 71, rising to 109 in 1985 – a 53 per cent hike between 1980 and 1985.

Nutrition and food security are two key factors in health. A UNICEF study in ten countries on the effects of adjustment on health concluded that children's nutrition had declined in eight of the ten countries. In Zambia, between 1980 and 1984 – the very period when SAPs were being implemented – death from malnutrition rose by between 2 and 6 per cent for children between the ages of 0 and 11 months; and between 38 and 62 per cent for children between the ages of 1 and 14 years.

By 1995, the Zambian government was spending 30 per cent less on healthcare than ten years before. One consequence: infant mortality has risen by 20 per cent in ten years.

The IMF and the World Bank say users should pay for healthcare services. As a result, in Mozambique the number of consultations at the Maputo hospital dropped by 24 per cent between 1986 and 1987. In Malaysia – even before the crisis that broke in 1997–98 – 40 per cent of the population could not afford private healthcare services (Balasubramaniam, 1996).

As for maternal health, in Nigeria the number of women using the capital city's main maternity ward for childbirth dropped from 6,535 in 1983 (beginning of SAP) to 4,377 in 1985 and 2,991 in 1988 (Bruno Dujardin, Antwerp Institute of Tropical Medicine).

### **Social Costs Described as 'Side-effects'**

In macroeconomic terms, these health and education measures lead to the disintegration of a debtor country's human resources.

The UNDP's 1992 report says that:

As a result of the economic crisis of the 1980s and the SAPs adopted in response, social spending has been sharply reduced in a large number of heavily indebted countries. This has had a direct effect on the population's standard of living, infant mortality, school enrolment and nutrition. (UNDP, 1992)

Through the prism of IMF and World Bank ideology, however, the 'social costs' of SAPs are a 'separate' matter. 'Undesirable side-effects' cannot be blamed on the economic model. They belong to a 'separate sector': the social sector. According to the IMF and World Bank, the social costs are compensated for by the 'economic benefits' of macro-economic stabilisation. 'Social costs' are short-term while 'economic benefits' are long-term.

### **Economic Consequences of Adjustment Policies**

Production for the domestic market is severely depressed as a result of reductions in real salaries, import liberalisation, and tax and price reform.

IMF measures are theoretically designed to help countries restructure their economies in order to create a surplus in their trade balance – thereby enabling them to repay their debts and embark upon a process of economic reconstruction. In fact, the exact opposite

occurs. Austerity undermines a country's capacity for recovery and prevents it from reducing its debt burden. The only thing it more or less ensures is that interest payments on debt will be met.

IMF measures actually increase a country's debt burden:

- loans granted on the basis of adjustment policies, in order to repay old debts, increase both total debt and debt servicing;
- in a context of trade liberalisation and the destruction of domestic production, short-term loans are granted to enable the country to continue importing goods from the world market;
- total import costs increase following currency devaluation;
- there is little or no capital accumulation in sectors not directly tied to the export sector.

Macroeconomic stabilisation and SAPs are powerful tools in the service of an economic restructuring that adversely affects the living standards of millions of people. SAPs are directly responsible for the process of mass impoverishment described thus far. The implementation of the IMF's and the World Bank's 'economic remedies' has led to the slashing of real wages, and the strengthening of an export economy that feeds off a low-wage workforce. The same 'recipe' of budget austerity, trade liberalisation and privatisation has been implemented simultaneously in more than 100 debtor countries in the Third World and Eastern Europe, including former Soviet republics and Vietnam.

### **Political Consequences**

Most debtor countries lose part or all of their economic sovereignty, along with control over economic and monetary policy. The central bank and Ministry of Finance are reorganised; some state institutions fall apart, paving the way for outside 'economic supervision'. The local teams and missions of the IMF and World Bank come to form a 'parallel government' which overrides local organisations and the national parliament.

Countries not respecting the IMF's 'performance goals' are blacklisted. Sudan is on such a list today, as was Nicaragua between 1979 and 1990.

The IMF demands that the internal security apparatus be strengthened: political repression – with the collaboration of Third World elites – plays a supporting role for the parallel process of *economic repression*. The tremendous despair of a people pauperised by the market economy is a source of riots against SAPs and popular uprisings. Funds and training are always set aside to ensure that these acts of despair are brutally suppressed.

Structural adjustment is one of the main techniques for economic constraint used by states in the centre against the periphery. Structural adjustment – implemented in more than 100 countries simultaneously – has a devastating social impact, negatively affecting the living and working conditions of some four billion individuals (Chossudovsky, 1994 and 1997).

The implementation of SAPs in many debtor countries leads to the ‘internationalisation’ of their macroeconomic policy, under the direct control of the IMF and the World Bank – which represent powerful financial and political interests (the Paris and London Clubs, the G7 and the closed circle of the main MNCs). This new form of political and economic domination – a kind of market colonialism – oppresses peoples and governments through the impersonal interaction (and deliberate manipulation) of market forces. The Washington-based bureaucracy is given the task of carrying out an overall economic enterprise affecting the living and working conditions of more than 80 per cent of the world’s population.

At no point in history has the ‘free’ market – given global reach through macroeconomic processes – played such a huge role in the destinies of ‘sovereign’ nations.

The restructuring of the global economy, under the watchful eye of the Washington-based financial institutions, has increasingly denied the countries of the Third World the possibility of building a national economy. The internationalisation of economic policy has turned these countries into economic open territory, and their national economies into ‘reservoirs’ of cheap labour and raw materials.

### **Price Unification and Labour Market Compartmentalisation**

While there are significant differences in the standard of living between countries of the North and those of the South, the devaluation of national currencies (see above) along with the deregulation of internal markets (through SAPs) lead to the dollarisation of

domestic prices. Domestic prices for food are increasingly aligned with world market prices.

After the 'Fuji-shock' in Peru – dictated by the World Bank and the IMF and implemented by President Alberto Fujimori in 1991 – the price of petrol increased by 3,000 per cent overnight, that of bread by 1,100 per cent. Yet the minimum wage fell by more than 90 per cent (compared to 1975). In August 1990, an agricultural worker in the northern provinces made \$7.50 per month; at the same time, many basic goods cost more in Lima than in New York (Chossudovsky, 1994).

This new global economic order – based on the internationalisation of goods prices and a fully integrated world market – operates with two distinct 'labour markets', increasingly cut off from one another. In other words, this global market system is characterised by a dual structure for wages and labour costs, separating countries of the periphery and those of the centre. While prices are unified and aligned with those of the world market, wages (and the cost of labour) in the Third World and Eastern Europe are on average 10–20 times lower than those in OECD countries. Furthermore, with the closure of US and Western European borders, the South's workforce can no longer circulate freely and sell its labour in the countries of the North. This fortifies the barriers separating labour markets on a global scale.

### **Reducing the Role of the State and Eliminating Autonomous National Projects**

The World Bank stresses the huge stakes involved in the quest to reduce the role of the state:

Of the world's 2.5 billion workers, 1.4 billion live in countries facing the difficult task of definitively emerging from a system of state intervention, excessive protectionism and centralised planning ... (World Bank, 1995)

In sub-Saharan Africa, Latin America and South Asia, most countries have pursued differing degrees of autonomous development that protected certain industries and discriminated against agriculture. These strategies benefited a limited number of privileged people (holders of capital and workers employed in the protected sector). Privileges were often defended with intervention

of an institutional sort (bans on dismissal in Latin America, excessive public-sector hiring in sub-Saharan Africa and South Asia) instead of being based on an increase in demand for labour or improvements in productivity. (World Bank, 1995)

Nothing is better for growth and improvements in the standard of living of workers than developments of the market that encourage companies and workers to invest in physical capital, new techniques and training. Some countries attempted to help workers with investment policies benefiting industry to the detriment of agriculture – through protecting from international competition the jobs of a small number of favoured workers in the industrial sector, decreeing salary rises and creating excess jobs in the public sector. These attempts have ended in failure, whether in Latin America, the former Soviet Union or elsewhere. (World Bank, 1995)

A number of observations can be made about these statements from the World Bank.

First, there is systematic fudging to present workers in the formal sector as being privileged on the same level as holders of capital. In the world according to the World Bank, there is no class antagonism between capitalists, on the one hand, and workers (whether small farmers, factory workers, education and healthcare workers, or unemployed), on the other. According to the World Bank, the real antagonism is between those with 'privileges' (workers in the protected sector, state sector employers and private employers protected by the state), on the one hand, and the poor (the unemployed, informal sector workers), on the other.

Second, the state played a negative role in most of the economies of the South and East; its role must therefore be cut back.

Third, attempts at autonomous development all ended in failure.

Fourth, one can sense the glee of the report's authors over the vast opportunities opened up for neo-liberal policies in regions as different as Latin America, Africa, South Asia and the former Soviet Union. This jubilation even takes on a ruthlessly vengeful tone in the following passage on the countries of the former Soviet Bloc:

Considering themselves to be the champions of labour, they guaranteed their workers periodic wage increases and cradle-to-

grave social protection – and therefore saw no need for free and independent trade unions. (World Bank, 1995)

Need we point out that it is sheer demagogery for the World Bank to mention the absence of free trade unions, given that it has supported (and continues to support) any number of dictatorships, be it Chile under Pinochet or Romania under Ceaușescu, just to name two examples?

Clearly, the World Bank's main priority is eliminating state interventionism and attempts at autonomous development and planning.

Yet, as a general rule, countries in the periphery that have scored successes have done so largely by relying on the active role of the state. This is particularly true of countries not long ago seen as models of success: South Korea, Taiwan, Malaysia, Thailand, Brazil and Mexico. Whether run by the national bourgeoisie, sections of the petty bourgeoisie or a dictatorial bureaucracy in the countries of the so-called Socialist Bloc, the state played a key role in spurring real-if-deformed development. The 'overdevelopment' of the state in the countries of the periphery (leaving aside the Socialist Bloc) is a function of the weakness of the local capitalist class. The state was a crutch for a local bourgeoisie handicapped by long years of colonial exploitation.

By shrinking the role of the state in the periphery, the World Bank seeks to heighten these countries' dependence on big capital at the centre.

For those seeking a progressive answer to this challenge, there are a number of pitfalls to be avoided. It is wrong, for example, to defend the state *per se*, as if its social content were neutral and its role globally positive. In the capitalist countries of the South, the state is a force for domination in the hands of the local exploiting classes. This state organises the repression of people's movements and enables the capitalist class to amass profits in peace. The neo-liberals should not have a monopoly on criticism of the state.

Indeed, Karl Marx was not the only one to decry the exploitative character of the capitalist state. The classical economist Adam Smith wrote, 'Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all' (Smith, 1776). The World Bank and the neo-liberals might even be able to claim this passage as their own, on condition

that the last part be removed. In their demagogic world view, 'the rich' are state sector workers; these workers use the state to exploit the poor. But it is pure communist heresy to say that the state was set up to defend the private property of the rich against those who have none.

There is good reason to fight the state, and replace it. The overthrow of the capitalist state comes as part of an authentic emancipatory revolution. This revolution must also end with the withering away of the new state structures, which are established for a transitional period. The objective is indeed the elimination of the state – not to give free rein to market forces; but rather to replace class dictatorship with a free association of working people.

Which brings us to the following question: What do the World Bank and the neo-liberals have in mind when they fulminate against the state? Is it not the system of social security partially financed from state funds? And overly accessible public education and healthcare programmes? And labour laws that more or less protect workers against unjust dismissal?

The main targets for neo-liberal wrath are the fragments of democracy and collective solidarity that exist within the state, and whose existence is guaranteed by the state. These fragments of democracy and collective solidarity stem from a mix of social gains secured through tremendous struggle by the oppressed, and concessions made by the rulers to maintain social peace. We must protect these fragments of democracy and solidarity.

The World Bank seeks to dismantle other areas of state authority. It insists on the elimination of remaining legislation protecting domestic markets in the countries of the South. It seeks to eliminate the control that some states in the South still have over strategic industries and natural resources. For the World Bank, these things must be eliminated to allow for the totally free circulation of capital – which can only bolster the supremacy of MNCs and the North's economies.

In this respect, we must learn to handle certain lines of argument with caution, lest we give credence to World Bank demagogic. The World Bank argues, for example, that the privatisation of state-run enterprises reduces corruption, increases company efficiency and curtails corrupt state bureaucracy. Let us not jump from the frying pan into the fire: there is surely no need, on the eve of the third

millennium, to demonstrate that private capitalist management is inefficient and corrupt.

Rather, there is a need for strict control of public administration. This means building active social movements and carrying out thoroughgoing political and legal reforms.

#### BOX 5 THE CAUSES OF UNDERDEVELOPMENT AND THE STRATEGIC SIGNIFICANCE OF NEO-LIBERALISM

A hierarchical world economy was progressively established between the sixteenth century and the beginning of the twentieth century. The different regions of the planet were linked through the violence that accompanied Western European expansion. At the beginning of the twentieth century, three centres of power emerged as the world's dominant powers: the European continent with Britain on top; the US (former British colonies until the end of the eighteenth century) and Japan. Together they constitute the 'centre', in contradistinction to the 'periphery' which they dominate.

This process involved the pillage of entire peoples by Europe's colonial powers; it also destroyed advanced civilisations which could otherwise have evolved in a pluralistic framework, in a potentially non-capitalist direction. The Inca, Aztec (Galeano, 1970), Indian (South Asia) and African civilisations were partially or totally destroyed. It was not, however, for lack of resistance. Karl Marx described Indian and Chinese resistance in the following terms:

The obstacles that the internal solidity and articulation of pre-capitalist national modes of production oppose to the solvent effect of trade are strikingly apparent in the English commerce with India and China. There the broad basis of the mode of production is formed by the union between small-scale agriculture and domestic industry, on top of which we have in the Indian case the form of village communities based on common property in the soil, which was also the original form in China. In India, moreover, the English applied their direct political and economic power, as masters and landlords, to destroying these small economic communities. In so far as English trade has had a revolutionary effect on the mode of

production in India, this is simply to the extent that it has destroyed spinning and weaving, which form an age-old and integral part of this unity of industrial and agricultural production, through the low price of English commodities. In this way it has torn the community to pieces. Even here, their work of dissolution is succeeding only very gradually. These effects are felt still less in China, where no assistance is provided by direct political force. (Marx, *Capital*, volume III, pp. 451–2)

The accumulation of capital also took place within the countries of Europe; the bourgeoisie enriched itself through the impoverishment of other social classes (including the nobility). It expelled a section of the peasantry from the lands peasants worked, to make them work in factories. Thomas More described this process in sixteenth-century England:

In this way, a starving miser fences in thousands of acres of land within a single enclosure; honest tillers are chased from their homes, some through fraud, others by violence, the happiest through a series of annoyances and troubles that force them to sell their properties.

Nor did this process occur without resistance in Europe. There were very radical peasant revolts; the bourgeoisie had to oblige a sizeable number of proletarians to work in the factories (hence the laws against begging, punishable with forced labour).

Back to the international arena: the worldwide primitive accumulation of capital occurred not only through outright pillage but also through unequal exchange. Marx describes this process in *Capital*, volume III, in the section on foreign trade:

Capital invested in foreign trade can yield a higher rate of profit, firstly, because it competes with commodities produced by other countries with less developed production facilities, so that the more advanced country sells its goods above their value, even though still more cheaply than its competitors. In so far as the labour of the more advanced country is valorized here as labour of a higher specific weight, the profit rate rises, since labour that is not paid as qualitatively higher is nevertheless sold as such. The same relationship may hold towards the country to which

goods are exported and from which goods are imported: i.e. such a country gives more objectified labour in kind than it receives, even though it still receives the goods in question more cheaply than it could produce them itself. (Marx, *Capital*, volume III, pp. 344–5)

It should be noted that Marx is talking about the advantages that capitalists secure from foreign trade, not only as a result of unequal trade but also as a way to reduce production costs – enabling the capitalist system to counterbalance the tendential fall in the rate of profit.

Marx's analysis of the nineteenth century remains valid today for understanding unequal exchange between countries with different levels of productivity – in particular between industrialised capitalist countries and the countries of the periphery. Indeed, the most industrialised countries export to less industrialised countries goods that can be sold at a lower price than what it would cost the countries of the South themselves to produce them. For example, when capitalists in the most industrialised countries sell industrial goods to the countries of the South, they can make surplus profit while still remaining competitive. The only way for a country of the South to begin to produce industrial goods without confronting competition from the North, would be to subsidise domestic industry and erect protectionist barriers – in the way the US did when it broke from the British Crown in the late eighteenth century. Such an approach gives less industrialised countries the time to reach a stage in the cumulative process of industrialisation where they can produce goods at comparable levels of productivity to their competitors in the North. This is what South Korea managed to accomplish for certain types of goods.

Countries of the periphery have faced a twin difficulty: in the first place, they were pillaged; and in the second, the only path left open to them was that of entering the world market under the wing of the centre's main powers. Countries electing to industrialise have had to do so within the framework of a world market flooded with Western industrial goods.

In other words, while the world market and global economy powerfully stimulated the industrialisation of the West from the sixteenth century to the nineteenth century ... since the end of

the nineteenth century the world market and global economy have been among the biggest obstacles to the industrialisation of the Third World, precisely in so far as they act as a brake on the accumulation of industrial capital. (Mandel, 1968)

To understand this brake on development, one also has to take into account the social structure of societies in the periphery – clearly analysing this structure with the precise features of each country and bloc of countries in mind.

For example, there is a world of difference between two large components of the periphery: Latin America and Africa. Latin America has had formal independence since the nineteenth century, the very point at which the colonisation of Africa began in earnest. Latin America saw the beginnings of industrialisation, in line with the first phase of the industrial revolution in Europe. Whatever industrialisation exists in Africa – and in some countries of sub-Saharan Africa there is none – goes back no further than the first half of the twentieth century. Latin America's bourgeoisies have a long history behind them; those of Africa are still in the process of formation in a number of countries. Indeed, they often trace their roots back no further than the new state apparatuses which emerged in the wake of their countries' national independence in the 1950s and 1960s.

Even between these two continents, the differences are striking. Yet they have enough in common (along with most of Asia) to belong to the periphery.

The brake on development does not only stem from the periphery's subordinate relationship to the centre; it also results from the class structure of the countries of the periphery, and the inability of the local bourgeoisies to unleash a cumulative process of growth involving the development of the domestic market.

With this in mind, one can understand the strategic significance of the neo-liberal onslaught of the last two decades of the twentieth century. For the overwhelming majority of countries in the South and from the former Socialist Bloc, the possibilities for autonomous development are even smaller than during the previous historical period. These countries' economies are more than ever before faced with competition from the goods and capital of the countries of the centre.

The drastic slimming regime – and even plain and simple dismantling – imposed on the states of the periphery, aims to eliminate obstacles to the expansion and two-way flows of capital controlled by the countries of the centre. The objective of the dominant classes in the North – with the complicity of the South and the East's rulers – is crystal clear. This does not mean that some governments in the periphery will not try to manoeuvre their way to retain control over some strategic sectors of 'their' economies. More importantly, nor does it mean that the oppressed will not show a tremendous capacity for resistance – which could take matters in a different direction: towards a socially just form of development.

## Neo-Liberal Ideology and Policies in Historical Perspective

Since the 1970s, neo-liberal ideology has progressively come to dominate economic and political thinking.

It is promoted by universities, the main economic journals and the major media outlets. Both right-wing and left-wing governments – with perhaps a few exceptions – have adopted it. Neo-liberal ideology appears to be all-conquering not only in the industrialised countries of the North but also in Eastern Europe (including the Russian Federation) and the countries of the Third World. Numerous Third World regimes that previously promoted socialist-type (or even ‘Marxist-Leninist’) ideas of the pro-Moscow or pro-Beijing variety are now on the neo-liberal bandwagon. Formerly progressive thinkers such as Brazilian president Fernando Henrique Cardoso have explicitly rejected their previous ideas as they rally to the neo-liberal cause.

Purveyors of the current neo-liberal fashion identify with an incoherent and eclectic set of economic and political ideas originating with David Hume (1711–76), Adam Smith (1723–90), Jean-Baptiste Say (1767–1832), David Ricardo (1772–1823) and even Immanuel Kant (1724–1804).

Translator’s note: in North American English, the terms ‘neo-liberal’ and, especially, ‘liberal’ are rarely used in the same way as they are in this chapter. In the US and Canada, advocates of ‘neo-liberal’ and ‘liberal’ economic policies are usually referred to as ‘neo-conservatives’, ‘fiscal conservatives’ or simply as ‘free marketeers’.

But before analysing the new neo-liberal fashion, it is worth taking a look at what came immediately before it.

### THE 1930s TO THE 1970s: LIBERALISM ECLIPSED

After having occupied centre stage in the nineteenth century and the first third of the twentieth century, liberal thought was eclipsed for the long period going from the middle of the 1930s to the end of the 1970s.

During this time – from the 1930s in North and South America, after the Second World War in Europe – policies involving strong government intervention in the economy came to hold sway. This was true of the US under Roosevelt's New Deal in the 1930s (see glossary) and 30 years later under the Kennedy administration. It was true of Britain under Beveridge (advised by J.M. Keynes) during the Second World War and under subsequent Labour governments. After the Second World War, it was true of France, Germany, Holland, Belgium and the Scandinavian countries. Keynesianism held sway, whether of the social democratic, 'socialist' or social-Christian variety.

In the countries of Eastern Europe, a dogmatic and authoritarian version of Marxism backed by bureaucratic regimes came to dominate. Large-scale nationalisations of private companies followed the establishment of 'people's democracies' after the Second World War.

In a certain number of key Third World countries, developmentalist, nationalist and even socialist (China after the 1949 revolution) policies came to the fore. Anti-communist regimes in the Third World, such as in South Korea and Taiwan, carried out radical agrarian reforms and built a strong industrial sector under the wing of the state. This is the central (and usually obscured) reason for the economic 'miracle' that took place in these two 'tiger' economies. The policies that created the past successes of South Korea and Taiwan stand in stark contrast to neo-liberal prescriptions. This point cannot be overemphasised.

The eclipse of liberalism came about as a result of the prolonged economic crisis that began with the Wall Street Crash in 1929, as a result of the victory of fascism and Nazism, and as a result of their defeat at the hands of the masses and Allied forces (US, USSR, Britain, France). The war and the defeat of fascism opened the way for

concessions to the working class; for the crisis of the colonial empires and the liberation struggles of dominated Third World peoples; for the relative successes of industrialisation by import-substitution in Latin America; for economic dynamism in India (after it won independence from Britain in 1947), Algeria (after it won independence from France in 1962) and Egypt (under Nasser in the 1950s and 1960s) until the 1970s; and for economic progress in the so-called socialist countries (Eastern Europe after the war, the USSR from the 1930s onwards).

The period had a number of striking features. First, a large number of private companies came under public control ('nationalisations'), beginning in Western Europe in the wake of the victory over the Nazis and extending into the Third World until the mid-1970s. Second, social welfare systems were set up and expanded as part of what became known as the Welfare State. Such reforms were also carried out in a number of Third World countries, such as Mexico in the 1930s under Lazaro Cardenas. Third, the economic model in place was 'Fordist' – that is, involving the development of mass consumption of durable goods in the industrialised countries. Fourth, a social compromise was reached in these countries between the leadership of the labour movement (parties and trades unions) and 'their' capitalist class. This compromise took the form of agreements on 'social peace'.

These features arose and prospered within a framework of sustained growth – in the developed capitalist countries, the Third World and the so-called socialist countries.

These wide-ranging political and economic developments also included a worldwide renewal of non-dogmatic Marxism in the developed capitalist countries (the works of Ernest Mandel, Paul Sweezy, Paul Baran, André Gunder Frank, to name but a few), and in Cuba after the revolutionary victory (beginning with the works of Ernesto Che Guevara in the 1960s). In Eastern Europe (Kuron and Modzelewsky in the Poland of the 1960s, Karel Kosik, Rudolf Bahro and others) a non-dogmatic Marxism emerged in opposition to the ossified Stalinist variant.

It is also worth noting the emergence of the Marxist-influenced dependency school of thought in Latin America (Theotonio Dos Santos, Rui Mauro Marini, Fernando Henrique Cardoso). Finally, there was the work of Samir Amin on de-linking.

## LIBERAL IDEOLOGY RETURNS WITH A VENGEANCE

Liberal ideology returned with a vengeance in the 1970s, in response to the economic crisis in the main industrialised capitalist countries. The crisis marked the beginning of a long wave of slow growth, or even of a long depressive wave. The liberal counter-offensive gathered steam with the Third World debt crisis in the early 1980s and the implosion of the bureaucratic regimes of Eastern Europe at the end of the 1980s.

This liberal (or neo-liberal) resurgence underlies and justifies the massive worldwide offensive waged by capital against labour. This offensive began in the second half of the 1970s in the industrialised capitalist countries. It continued with the progressive restoration of capitalism resulting from the collapse of the bureaucratic regimes of the East at the end of the 1980s. It included the crisis of the 'developmentalist' models in the countries of the South, which was sharpened by the foreign debt crisis – leading to a new cycle of heightened dependence for countries that had experienced partly autonomous industrialisation (such as Mexico, Argentina, Brazil, India and Algeria). South Korea may soon join the ranks of these latter countries. As for the most dependent and least industrialised countries (Central America; the Caribbean – save for Cuba; sub-Saharan Africa; and South Asia – save for India), they never really escaped dependence on the North's capitalist powers. They are now fully under the thumb of the international financial institutions (including Nicaragua and Vietnam, which had indeed experienced authentic revolutions). Institutions such as the Economic Commission for Latin America (CEPAL) and the United Nations Conference on Trade and Development (UNCTAD) have slowly but surely joined the neo-liberal chorus (true, this process has not always been a smooth one: witness, for example, the 1995 UNCTAD report quoted in this book). As for the Non-Aligned Movement (NAM), it has not survived the Yugoslav crisis, the Third World debt crisis and the overall neo-liberal offensive.

## NEO-LIBERAL IDEOLOGY IS NOT A PRODUCT OF THE CRISIS

Liberal (or neo-liberal) ideology is not a product of the crisis. It existed long before the crisis broke. A variety of economists and political

leaders continued to identify with liberal ideas in spite of the pre-eminence of Keynesian and proto-socialist policies. A number of them had been sharpening their theoretical wits over a long period of time, during their long ideological battle with Keynesian ideas in the North, 'developmentalist' ideas in the South (personified by such people as CEPAL head Raul Prebisch), and with socialist and Marxist ideas in general in various parts of the world.

## THE THEORETICAL FOUNDATION OF THE DIFFERENT NEO-LIBERAL CURRENTS

Methodologically speaking, it is not easy to define the main tenets of neo-liberal thought. The same goes for Keynesian and Marxist thought. Each one of these schools of thought has many different currents. There are profound differences between the different currents of liberalism, just as there are within Keynesianism and Marxism. There have also been attempts to synthesise liberal and post-Keynesian ideas, on the one hand, and liberal and post-Marxist ideas, on the other.

In general, the liberal (and neo-liberal) school of thought is grounded in a vast and eclectic body of works – including neoclassical notions such as the quantitative theory of money, Say's law, the theory of prices based on the interaction of supply and demand, and the theory of comparative advantages.

Friedrich von Hayek (1899–1992) and Paul Samuelson are good examples of why it is so difficult to define clearly the parameters of neo-liberalism. Hayek currently enjoys enormous popularity as an ultra-liberal, yet he rejects many key hypotheses of neoclassical thought. Samuelson does not belong to the liberal school, yet in the 1950s pushed for a synthesis of neoclassical thought.

## THE NEO-LIBERALS' PREDECESSORS

### **Adam Smith**

Smith (*An Inquiry into the Nature and the Causes of the Wealth of Nations*, 1776) carried out a synthesis of the contributions of a number of schools of economic thought, including that of the French physiocrats. He opposed mercantilism, which had been responsible over two centuries for protectionism and state intervention. The

main expressions of mercantilism were Colbertism in France, Bullionism in Spain and the policies of Cromwell and Petty in England. Adam Smith is best remembered for his allegory of the 'invisible hand'. According to Smith, each individual fulfils 'an objective that is entirely independent from his intentions .... While seeking only his personal gain, he often works in a much more efficient way in society's interests than had society's interest been his real motivation' (Smith, 1776).

For Smith, public spending should be limited to defence, justice and public works when and where private entrepreneurs were not willing to take charge themselves, 'given that, in these matters, profit would never be enough to return monies spent' (Smith, 1776).

Adam Smith's ideas correspond to the strong development of English capitalism in the eighteenth century and laid part of the foundation for 'economic liberalism'.

We should recall that Smith has not only been a source of inspiration for liberals (and neo-liberals). Some parts of his analysis (and that of the mercantilists he fought) were taken on by Karl Marx in his critique of political economy. Indeed, for Smith, 'Labour is the true measure of value' (Smith, 1776). David Ricardo expanded on this notion, and Marx further developed it while acknowledging his debt to Smith and Ricardo. Unlike Smith, Marx also used a number of the mercantilists' contributions (see Labica-Bensussan, 1982).

Smith also makes a number of statements which today's neo-liberals would find extremely irritating:

English businessmen frequently complain about the high level of wages in their country. They say that this high level is the reason why they cannot sell their goods at prices that are as competitive as in other countries. But they remain quite silent about their high profits. They complain about the high profits of others but are very quiet about their own. In many cases, the high profits made by capital are much more to blame for price rises than are exorbitant wages. (Smith, 1776)

This statement is truly heresy for today's neo-liberals, for whom wages are always far too high, and the cause of inflation and poor competitiveness.

### Jean-Baptiste Say

In 1803, Say described a law whereby the role of money is neutral in the economy and ‘supply creates its own demand’. Therefore, no crisis of overproduction is possible in a free market economy.

Say’s law is a key reference for liberal (and neo-liberal) economists. Yet it was proved wrong by events in Say’s time, a point that has been raised by a wide range of economists going from Malthus (1820, *Principles of Political Economy Considered According to their Practical Application*) to Sismondi (1819, *Nouveaux principes d’économie politique ou de la richesse dans ses rapports avec la population*) and Marx.

### David Ricardo

In Ricardo’s theory of competitive advantages (Ricardo, 1817, chapter 7), he critically takes and enhances Smith’s stance in favour of free trade and an international division of labour. For Ricardo, a country does well to specialise in those areas of production whose relative costs are lowest – in other words, those areas where it has the greatest comparative advantage. Unlike Smith, he goes on to say that countries that have competitive advantages in all areas of production should none the less specialise.

In a well-known example, Ricardo shows that if Portugal is more efficient than England in the production of both wine and fabric, it should still abandon the latter if its price advantage in wine production is greater. Inversely, England should specialise in the production of fabric, where its handicap is the least great. (Adda, 1996; Montes, 1996)

Apart from Smith, Say and Ricardo, today’s neo-liberals draw inspiration from other economists such as Jevons (*The Theory of Political Economy*, 1871), Menger (*Grundsätze des Volkswirtschaftslehre*, 1871) and Walras (*Eléments d’économie politique pure ou théorie de la richesse sociale*, 1874–77).

These economists criticise both Ricardo’s (and Marx’s) analysis of value and his analysis of distribution. They developed a theory of prices based on the principle of decreasing marginal utility. Dominant economic thought refers to this theory as signalling the ‘marginalist revolution’.

Within this framework, Walras also developed a theory postulating a system of general equilibrium. This theory is very much in vogue among today's neo-liberals. In such a system, society is defined as a natural mechanism (akin to a biological organism and the solar system) within which individuals freely ensure the most effective allocation of resources, thereby guaranteeing optimum economic performance.

Finally, to complete the list of references for today's neo-liberals, we must add the quantitative theory of money. This theory can be found in Smith's and Ricardo's work and has been around since at least the sixteenth century. It explains price movements as being a result of the quantity of money in circulation.

Taken together, all these references are described by some economists as forming a 'neoclassical' synthesis. As Michel Beaud and Gilles Dostaler have pointed out, 'Through it all, real life has persistently contradicted the analysis of many classical and neoclassical economists whereby the free functioning of the markets is enough to guarantee the full use of resources and their optimum allocation' (Beaud and Dostaler, 1995).

Marxist scholars, beginning with Marx and Engels themselves, refuted the different component parts of this rather eclectic body of theoretical work – at a time when Marxism influenced a large part of the international working-class movement.

By his own admission, Keynes himself had originally championed the liberal cause. Yet 75 years after Marx and Engels, he developed a radical critique of a number of the central tenets of the classical (liberal) economic creed. In response to Smith and Say, for example (and like Marx), he highlights the important contributions of the mercantilists (Keynes, 1936, chapter 23). However, he stood by the liberal creed on a number of other matters – on such key questions, for example, as the definition of real salaries as being equal to the marginal productivity of labour (see Beaud and Dostaler, 1995).

## MORE ON THE ECLIPSE OF LIBERALISM

As a result of the crisis of the 1920s and 1930s, a new wave of critics tackled the neoclassical creed on a largely pragmatic basis. This new wave was international; it involved political leaders and economists belonging to various currents: enlightened bourgeois thinkers, socialists and Marxists. In a context of mass unemployment and

depression, proposals came forward for major public works, for anti-cyclical injections of public money, and even for bank expropriations. Such proposals came from a wide variety of sources: Germany's Doctor Schacht; the Belgian socialist Deman; the founders of the Stockholm School, backed by the Swedish social democrats; Fabian socialists and J.M. Keynes in Britain; J. Tinbergen in the Netherlands; Frisch in Norway; the Groupe X-crise in France; Mexican President Lazaro Cardenas (1935–40); Peronism in the Argentina of the 1930s; US President Roosevelt (elected in November 1932) and his New Deal.

The entire range of proposals and pragmatic policies was partially summed up in Keynes's 1936 work *General Theory of Employment, Interest and Money*.

## THE KEYNESIAN REVOLUTION

The preparatory work carried out by Keynes (1883–1946), laying the groundwork for the *General Theory*, was driven by the need to find a solution to the generalised crisis of the capitalist system. Moreover, this solution had to be compatible with the continued survival of the system. The work was partly the result of a wide-ranging collective process wherein groups and individuals ended up in different Keynesian currents, often very much at odds with one another. Some leant more towards Marxist positions, such as the Englishwoman Joan Robinson and the Pole M. Kalecki, who had actually formulated the key components of the *General Theory* before Keynes. Others grew progressively closer to the very tenets of liberalism and neoclassical economics that Keynes decried.

In one of his writings, Keynes pays homage to the English philosopher George Edward Moore, whom he credits with having freed him from the prevailing morality of the day and having 'protected us all from that final *reductio ad absurdum* of Benthamism known as Marxism' (quoted in Beaud and Dostaler, 1995).

Keynes had been politically active since the First World War. An employee of the British Treasury, he actively participated in negotiations on the Treaty of Versailles, which marked the end of the war in 1918. He resigned from the British delegation in protest at the scale of reparations imposed on Germany. Soon after, he published *The Economic Consequences of the Peace* (Keynes, 1919).

In the 1926 pamphlet *The End of Laissez-faire*, he writes: 'It is in no way accurate to deduce from the principles of political economy that enlightened personal interest always works in favour of the general interest' (quoted in Beaud and Dostaler, 1995).

In the 1920s, Keynes condemned the policies of Winston Churchill's Tory government. He opposed the liberal (neoclassical) policies that provoked a miners' strike, followed by the 1926 general strike.

Thereafter, he called for a policy of major public investment. He supported the Liberal Party while maintaining friendly ties with the Labour Party. In 1929, in the wake of Tory defeat, the new Labour government appointed him to the McMillan Commission on the economic situation. In 1930, he became an adviser to the same government.

The economic crisis deepened following the 1929 Wall Street crash, leading Keynes to produce an analysis of employment, interest and money which strengthened his conviction that there should be increased state intervention. To compensate for the shortfall in demand, the state should increase spending in order to give a boost to the economy and employment.

Thereafter he became involved in a major polemic with Hayek. Although, like Keynes, Hayek had come to reject a number of the ideas of Smith, Ricardo, Walras and Jevons, with Ludwig von Mises (1881–1973) he fashioned a set of ultra-liberal ideas standing in fierce opposition to the main tenets of the Keynesian revolution.

For Keynes and his *confrères*, the Great Depression was ultimately caused by the collapse in investment. For Hayek and his supporters, on the contrary, the economic crisis was caused by over-investment rooted in slack monetary policies. For Keynes, consumption and investment had to be sparked by strong state intervention. For Hayek, state intervention reduced the funds available for private investment. For Keynes, wages had to be increased to stimulate consumption. For Hayek, they had to be lowered to ensure renewed full employment. The polemic hit the pages of the British press in 1932 (*The Times*, 17 and 19 October 1932).

For Keynes, economic policy had to be geared towards reducing the high unemployment rate and distributing revenues in a more egalitarian manner. If the government did not pursue the objectives of full employment and greater equality, he argued, there was a serious danger that either fascism or Bolshevik communism would

win the day. Government policy had to be aimed at reducing high interest rates, which channelled vital resources into the financial sector. By lowering interest rates, the aim was to favour the destruction of the rentier class, scourge of the capitalist system. At the same time, however, Keynes states quite clearly that the consequences of his theory are 'moderately conservative':

while it highlights the vital importance of establishing certain central controls in fields that today remain completely in the hands of private initiative, it also leaves a great many fields of activity in private hands. ... It does not actually call for a system of state socialism that would subject most of the community's economic life to its control. (Keynes, 1936)

Keynes's prescriptions were put into practice in many regions of the world right up until the 1970s. They also strongly influenced a number of economists, such as Samuelson, Galbraith, Tobin and Prebisch.

## PREPARING THE NEO-LIBERAL COUNTER-REVOLUTION

There was a swift reaction to the policies of state intervention aimed at boosting demand and moving towards full employment. From the beginning of the 1930s, Hayek and von Mises set out to demolish Keynes's proposals.

Since 1945, in various academic and business circles, different projects have emerged simultaneously to bring together the qualified defenders of liberalism (neoclassical economics) with the aim of organising a joint response to the advocates of state intervention and socialism. Three centres where this post-War resistance was organised were: the Institut universitaire de hautes études internationales (IUHEI) in Geneva, the London School of Economics (LSE) and the University of Chicago. (Udry, 1996)

At the end of the Second World War, Hayek was teaching at the LSE. In 1947, he and von Mises founded the Société du Mont-Pélérin. The first meeting was held in April 1947 and brought together 36 liberal luminaries at the Hôtel du Parc at Mont-Pélérin near Vevey in Switzerland. The gathering was financed by Swiss bankers and

industrialists. Three major US publications (*Fortune*, *Newsweek* and *Reader's Digest*) sent delegates. In fact, *Reader's Digest* had just run an abridged version of one of Hayek's main works, *The Road to Serfdom*. Among other things, that book said:

In the past, man's submission to the impersonal forces of the market made possible the development of a civilisation which otherwise would not have emerged. It is through submission that we participate everyday in the building of something much bigger than what we can all fully understand. (Hayek, 1944)

Right-wing economists and philosophers from different 'schools of thought' participated in the gathering.

At the end of the meeting, the Société du Mont-Pélérin was founded – a kind of neoliberal Freemasonry, very well organised and devoted to the dissemination of the neoliberal creed, with regular international gatherings. (Anderson, 1996)

Among the organisation's most active members were Hayek, von Mises, Maurice Allais, Karl Popper and Milton Friedman. It became a think-tank for the neo-liberal counter-offensive. Many of its members went on to win the Nobel Prize for economics (Hayek in 1974, Friedman in 1976 and Allais in 1988).

## THE NEO-LIBERAL RESURGENCE

The neo-liberal current made the University of Chicago one of its bastions. Friedman spent his entire academic career there, while Hayek taught there between 1950 and 1961. Later on, people began to refer to the neo-liberals as the Chicago School, and spoke of Friedman's 'Chicago Boys'. In 1970, Friedman declared that he had seen through the victory of the 'counter-revolution in monetary theory', defined by him as the 'renewed accent placed on the role of the quantity of money' (Friedman, 1970). In his book *The Counter Revolution in Monetary Theory*, Friedman argues that all variations in the money supply are followed by corresponding changes in prices, production and revenues. He says this law has been observed for centuries and can be compared to the laws of natural science. He concludes that the state cannot boost demand through the creation

of money, lest unemployment rise in the same proportions. He proposes a constitutional amendment whereby the money supply should change at a constant rate, equal to the long-term rate of growth of national production (Beaud and Dostaler, 1995). His contention that increases in the rate of inflation automatically lead to a corresponding increase in unemployment has been disproved by events. Indeed, in the Europe of the 1990s, the drop in inflation has gone hand in hand with an increase in the rate of unemployment (or its remaining at high levels). Nevertheless, Friedman's theory has inspired neo-liberal policies implemented since the beginning of the 1980s and accentuated by the Maastricht Treaty.

Following in the footsteps of J.B. Say, Friedman argues that the free functioning of the market is enough to ensure the optimum allocation of resources and the full use of production capacity. This view has been refuted by events, but this has not stopped it from gaining wide currency as a matter of 'common sense'.

Friedman did not remain aloof from politics; he put himself squarely in the reactionary camp. In 1964, he was economic adviser to Republican presidential candidate Barry Goldwater. He held the same post alongside Richard Nixon in 1968 and Ronald Reagan in 1980.

After the government of Salvador Allende was overthrown by a military coup in Chile in 1973, he advised General Pinochet. He supported the repression that was carried out and called for measures of extreme austerity. Hayek also expressed support for the general's dictatorial and bloodthirsty methods. In response to a Chilean journalist's questions in 1981, he said: 'A dictator may rule in a liberal way, just as it is possible for a democracy to rule without the slightest liberalism. My personal preference is for a liberal dictatorship rather than a democratic government thoroughly lacking in liberalism' (quoted in Salama and Valier, 1994). After ten years during which his economic prescriptions were followed, Chile entered a recession that saw GDP plummet by 15 per cent in 1982–83, with unemployment at 30 per cent (Ominami in Urriola, 1996). Indeed, Chile was only able to become something of an economic success story in the 1990s by breaking cleanly with the approach of the Chicago Boys.

While Ronald Reagan was inspired by Friedman, Margaret Thatcher is a disciple of Hayek:

It was only in the middle of the 1970s, when Hayek's works figured prominently in the readings that Keith Joseph [Thatcher's economic adviser and participant at Mont-Pélérin meetings] gave me that I really grasped his ideas. It was only at that point that I considered his arguments from the point of view of the type of state dear to Conservatives (a limited government based on the rule of law), as opposed to the point of view of the type of state to be avoided (a socialist state where bureaucrats ruled unchecked). (Thatcher, *The Path to Power*, 1995; quoted in Udry, 1996)

## ROBERT LUCAS AND THE DENIAL OF INVOLUNTARY UNEMPLOYMENT

The neo-liberal counter-revolution has added a whole new dimension to reactionary ideas.

According to Robert Lucas, who describes himself as a partisan of 'new classical macroeconomics', involuntary unemployment does not exist. For Keynes, the existence of involuntary unemployment was a given. However, according to Lucas, unemployment is caused by the choices a worker makes between work and leisure. Lucas argues that any economist seeking to understand changes in the labour market must postulate that workers make rational choices between the amount of work time and leisure time. In other words, an unemployed worker is a person who has chosen to increase leisure time, even if this means his or her revenues fall or disappear.

In line with the classical orthodoxy targeted by both Marx and Keynes, Lucas argues that there is a natural rate of unemployment, and that it is counter-productive for governments to seek to influence this rate with pump-priming job-creation measures.

Lucas is a professor at the University of Chicago; in 1995, his contribution to the neo-liberal offensive was rewarded with the Nobel Prize for economics.

He and his colleagues made a radical critique of Reagan's policies, rightly arguing that they had strayed from monetarist orthodoxy. They approved Reagan's monetarist plans to reduce the money supply; but said that tax cuts and high military spending – which could only widen the public deficit – were incompatible with this objective. They backed cuts in social spending and opposed the increase in military spending.

There was nothing ethical about their opposition to military spending, yet it revealed the striking incoherence between Reagan's monetarist convictions and his actual policies involving an increase in the public deficit. He selectively applied Keynesian methods to get the US out of recession with an increase in public spending. He did so in a reactionary manner, channelling the increased public funds into arms spending (and space research for the Strategic Defense Initiative – or 'Star Wars' – project). As far as the interests of US imperialism were concerned, Reagan's approach – much criticised by the neo-liberal keepers of the faith – ended up serving them quite well. But the social costs have been enormous.

#### BOX 6 THE ABSURDITIES OF NEO-LIBERAL AND NEO-CLASSICAL THOUGHT

##### **The Imperialism of Neoclassical Economics** (excerpts from Beaud and Dostaler, 1995)

Neoclassical theory has long been criticised for its reductionism, which makes it unable to take into account the complexities of the world in which we live. Paradoxically, some neoclassical theorists linked to the Chicago School have reacted to this critique by pushing their reductionism to the extreme – making their theory the key to all knowledge of all social phenomena. The other social sciences – such as sociology, political science, history and psychology – are seen as superfluous.

According to this view of things, society is a collection of independent agents (individuals, households and companies). Each agent has free will; it is the interaction of the different individual decisions that determines the course of economic, social and political life. Each agent is subjected to a series of constraints, both cognitive and material in nature. The resources available to each agent (goods and services, productive resources, information) are limited. Behaviour can be foreseen based on the hypothesis that each agent will act rationally. This hypothesis, in fact, is the core of neoclassical analysis.

The big step was taken by Becker (who won the Nobel Prize for economics in 1992) and Mincer, both from the Chicago School. They have applied this approach, based on the rational behaviour of each independent agent, to all human activities. This enables

them to explain all human behaviour, including criminal activities. Such activities, like all others, are seen to be the result of a rational calculation, wherein profits (high and short-term) are compared to costs (the danger of being apprehended and punished). Becker and his colleagues have generalised this analysis to include marriage, childbearing and rearing, divorce and the division of household chores. In each case, it is a matter of making a rational cost–benefit analysis. The emergence of such specialties as the ‘new economy of the family’ (Becker 1968; Becker and Landes 1974) shows how wide the net of *homo economicus* and rational choices has been cast.

In addition to being called ‘revolutionary’, these changes have also been labelled ‘imperialist’ (Stigler 1984). The further afield Becker and his colleagues travel, the less room there is for genuine research in anthropology, psychology, political science, sociology and all the social sciences and humanities. For this approach to economics sees itself as a general theory for all human behaviour:

There is only one social science. What gives the economic sciences their capacity for imperialist expansion is the fact that our analytical categories – scarcity, cost, preference, opportunity – are truly universally applicable.... In this way, the economic sciences are the universal grammar of social science. (J. Hirschleifer, ‘The Expanding Domain of Economics’, *American Economic Review*, vol. 75, No. 6, 1985)

## FREE MARKETS AND THE OPTIMUM ALLOCATION OF RESOURCES

For the hand to remain invisible, the eye must be blind. (Bensaïd, 1995)

Of course, it is easy to argue that there is no example of a fully free-functioning market. This is obviously true in those countries where the authorities and organised workers refuse neo-liberal dogmas and have managed to defend their social welfare system and retain reasonably stable employment and intact public services. Yet it is also true in all those countries where neo-liberal policies have been implemented most aggressively. The neo-liberals in power in the US

since 1980 have indeed cut back on what they see as obstacles to the free functioning of the market – for example, by diminishing the strength of the trade union movement and rolling back social welfare. But they have also strengthened other such ‘obstacles’: through the greater concentration of companies, creating oligopolies in certain sectors; through the privatisation of state-owned companies, eliminating any form of democratic control; through maintaining protectionism against foreign competitors (tariff barriers and other constraints on the free market); through strengthening the power of financial players, leading towards a ‘tyranny of the markets’; and through restricting the free circulation of labour.

Meanwhile, in the case of the US, inequalities have increased and poverty affects a larger share of the population. A significant share of new jobs are poorly paid and short-term. The prison population has gone from 250,000 in 1975 to 744,000 in 1985 and 1.6 million in 1996: according to prison authorities, ‘a black man is seven times more likely than a white man to go to prison’ (*Le Monde*, 13 August 1997). Never before have there been so many economic activities of a criminal character by company heads and public officials – encouraged by the deregulation of capital flows.

In defence of their record, neo-liberals always retort that resources are not optimally allocated since there is nowhere that the market functions unfettered. The task, therefore, is to struggle against obstacles to the market in view of achieving universal prosperity at some point in the distant future.

In fact, in the name of the quest for a free market (the neo-liberal promised land), the objective is to destroy the gains of workers and the oppressed generally – gains which are described as so many reactionary ‘rigidities’.

### NEO-LIBERAL SLEIGHT OF HAND: PORTRAYING THE OPPRESSED AS OPPRESSORS

In fact, there is nothing new about this line of argument. The idea is to single out the trade union movement and legislation defending workers as oppressive mechanisms. These mechanisms, the argument goes, were established by the privileged sectors of the population that have well-paid jobs, against those who merely want to accept the jobs they are offered.

In 1944, Hayek wrote in *The Road to Serfdom*:

Never has a class been so cruelly exploited as are the weakest sectors of the working class by their privileged brothers – a form of exploitation made possible by the ‘regulation’ of competition. Few slogans have done as much damage as the ‘stabilisation’ of prices and wages. By ensuring the wages of the few, the situation of the many is made increasingly precarious. (Hayek, 1944)

To all intents and purposes, the World Bank said the same thing 50 years later in its 1995 report entitled ‘The World at Work in a Borderless Economy’. Here are a few excerpts (emphases mine):

Through the obstacles it places to job creation, overly restrictive job-security regulations threaten to protect those in salaried positions *at the expense of excluded sectors, the unemployed and workers in the informal and rural sectors.* (World Bank, 1995)

Down with job security! It thrives at the expense of the oppressed!

There is good reason to fear that those who most benefit from social security – usually well-off workers – do so *at the expense of other workers.* (World Bank, 1995)

Down with social security!

There can be no doubt that trade unions often behave like monopolies to secure improvements in wages and working conditions for their members *at the expense of holders of capital, consumers and the non-unionised work force.* (World Bank, 1995)

Down with the trade unions!

Hayek and Friedman now have imitators in the East. Former Czech prime minister Vaclav Klaus told the British weekly *The Economist:*

The Western European social system is too much a prisoner of rules and excessive controls. The Welfare State, with all its generous transfer payments unconditioned by criteria relating to the efforts and merits of the people concerned, destroys the work ethic and feelings of individual responsibility. Public sector workers are too protected. The Thatcher revolution – that is, the liberal, anti-Keynesian revolution – is in midstream in Western Europe. It has to be taken to the other shore. (quoted in Anderson, 1996)

Klaus did indeed make it to the other shore, even if somewhat drenched in the muck of financial scandal. He was forced to resign in December 1997 in a context of growing popular discontent.

In another document drawn up especially by the World Bank for the Global Summit on Social Development, organised by the UN in Copenhagen in March 1995, the Bank says that for Third World countries:

Minimum wages, unemployment insurance, redundancy payments and job-security legislation are of no use to rural and informal workers, who account for the majority of the poor in developing countries. (World Bank, 1995b)

This type of statement is in perfect harmony with those made by another champion of neo-liberalism, Gilder, for whom: 'Social security now erodes both work and the family, keeping the poor in poverty' (Gilder, 1981). It is worth knowing that Gilder favours such an approach for the entire planet, including the industrialised countries! Such declarations recall something Malthus said: 'To be sure, the Poor Laws can be seen as weakening the willingness and ability of the common people for uplift. In this way, they weaken one of the most powerful motives for work.'

In such a context, what possible message could neo-liberalism be passing along to future generations? It is very straightforward. When asked what he says to his children, IMF head Michel Camdessus replied: 'Pull yourself up by your bootstraps!' (*Le Soir*, 14 February 1996).

Which all makes one wonder if neo-liberalism has run out of steam. In 1997, extensive polls in Britain – cradle of the neo-liberal offensive of the 1980s – revealed that a majority of people reject Thatcherite values. This prompted the *Financial Times* to run the banner headline: 'Thatcherism leaves fleeting legacy' (*Le Monde*, 28 November 1997). In Belgium, in autumn 1997, the daily *Le Soir* published the results of a survey clearly indicating that the Francophone Belgian population rejects an economic system dominated by neo-liberalism. The hair-raising fiasco of neo-liberal policies in Asia and Russia will in all likelihood accelerate this shift in opinion among wide sectors of the global population.

# Debt in the 1990s: Latin America and Sub- Saharan Africa

## LATIN AMERICAN DEBT: CHANGE AND CONTINUITY

In contrast to what occurred during the crisis of the 1930s, after the 1982 Mexican crisis Latin America's leaders resigned themselves to negotiating separately with their private foreign creditors (who held most of the region's external debt). The US was very much involved in this process. Latin American leaders justified this approach by saying that they had to prevent external lines of credit from being cut off one after the other. In fact, Latin America has seen the worst of both worlds: there has been a huge drain of wealth into the coffers of private creditors – yet this has not prevented foreign banks from cutting off their lines of credit. The Economic Commission for Latin America (CEPAL) estimates the net transfer (see glossary) of capital from Latin America to the North between 1983 and 1991 at more than \$200 billion. There has been a colossal transfer of wealth from the countries of Latin America to the North's financial institutions. Between 1982 and 1996, Latin America made \$739.9 billion in debt-servicing payments. Latin American debt has continued to grow (see Table 14.1).

## LATIN AMERICAN GOVERNMENT POLICY IN THE 1990s

The rate of poverty dropped in the 1950s and even more quickly in the 1960s and 1970s. The 1980s were disastrous. In the 1990s,

Table 14.1 Evolution of external debt in Latin America and the Caribbean (\$bn)

Year	1970	1975	1980	1985	1990	1995	1996
<i>Latin America total</i>							
	38	69	228	378	439	573	607*
<i>Main debtor countries</i>							
Brazil	n.a.	20	70	105	123	169	176
Mexico	n.a.	17	51	98	102	164	168.5
Argentina	n.a.	8	27	49	61	84	96.2
Venezuela	n.a.	4	30	34	36	35	37
Peru	n.a.	4	10	14	20	26	27
Colombia	n.a.	4	7	14	18	21	22
Chile	n.a.	4	11	20	19	21	25
Sub-total as share of total Latin American and Caribbean debt							
	n.a.	94%	90%	88%	86%	91%	91%
<i>Medium-sized countries</i>							
Ecuador	n.a.	n.a.	6	n.a.	12	n.a.	14.5
<i>Small countries</i>							
Bolivia	n.a.	n.a.	2.7	3.3	3.8	4.5	n.a.
Haiti	n.a.	n.a.	0.3	0.6	0.8	0.9	n.a.
El Salvador	n.a.	n.a.	1.2	2.0	2.2	2.1	2.3
Guatemala	n.a.	0.6	1.0	2.7	2.6	2.1	3.0
Nicaragua	n.a.	0.6	1.8	4.9	10.5	10.2	n.a.
Paraguay	n.a.	n.a.	0.8	1.7	1.7	1.4	n.a.

Source: CADTM, based on CEPAL and BIS figures.

\*In its 1997 report, the World Bank provides a figure for total Latin American debt \$49.5 billion higher than the one given here (\$656.5 billion as opposed to the CEPAL figure of \$607 billion).

n.a. = not available

only a few countries have registered a fall in poverty (Chile, Colombia). (UNDP, 1997)

From a theoretical perspective, privatising for efficiency's sake is about as logical as saying that you have to put an oven in direct sunlight in order to bake bread. (Ugarteche, 1996)

In 1993–94, almost every financial commentator, along with a great number of reputable economists, backed the World Bank and IMF's self-satisfied claims that Latin America was in the midst of a fully-fledged economic recovery (they were similarly complacent with respect to the Southeast Asian 'dragons' right up until June 1997, even though the crisis there had already begun in April 1997). They pointed out that significant funds were making their way back into Latin America – and this, they said, showed that the lost decade of the 1980s was over. After leaving his job as an IMF administrator, and only a few months before the Mexican crisis of December 1994, Jacques de Groote told the Belgian daily *Le Soir* (28 March 1994):

There are countless success stories. The best example is Mexico. In October 1982, this country was hit by a major debt crisis. The joint action of the IMF and World Bank quickly got the country on its feet again, got its balance of payments back in shape in exchange for a limited and short-term drop in the population's wages. Today, investment has returned to Mexico and the World Bank is running a programme that aims to diversify production. ... In fact, all the countries of Latin America ... are doing very well economically.

In fact, these investment flows were (and are) volatile. They were primarily attracted to these countries for two reasons: first, a policy of high interest rates pursued by the IMF's best pupils (Brazil, Mexico, Argentina, to name a few) and an unprecedented wave of privatisations (large state-owned companies sold for a song). In order to sweeten the pot, the government declared a fiscal amnesty for all nationals repatriating capital that had been invested abroad. It was misguided to expect that this huge mass of capital on the lookout for a juicy rate of return could ever get Latin American economies back on track by rejuvenating privatised companies with new money. All along, the Mexican trade deficit was getting worse and worse; and this ultimately shook private investors' confidence and led them progressively to withdraw their money throughout 1994. Stock market shares were sold off; Mexico plunged into crisis once again. To avoid a similar fate, the governments of Brazil and Argentina have been pursuing an aggressive policy of high interest rates in an attempt to keep investment from going elsewhere. The Mexican government has been doing the same.

## DEBT NATIONALISATION, COMPANY PRIVATISATION, DOMESTIC MARKET DOLDRUMS AND INCREASED DEPENDENCE ON FOREIGN CAPITAL

It was of enormous benefit to local capitalists when their governments nationalised private debt. In this way, they not only made huge savings, but also were able to export much of their capital to the North's financial markets.

And that's not all. Since the state took over company debts, companies were able to use their new margin for manoeuvre to buy up state-owned businesses that were being privatised from the mid-1980s onwards. Some countries, such as Mexico and Argentina, privatised faster than others. Brazil and Venezuela only began large-scale privatisations in 1996–97.

It has already been pointed out that, since the beginning of the 1990s, most Latin American governments have pursued a policy of high interest rates. The objective is to attract foreign investment and to persuade local capitalists to repatriate a part of the funds they have invested in the North. The social costs of such a policy are high. Small and medium-sized producers, let alone households, cannot borrow. This has led to a downturn in production for the domestic market.

Growth is pulled along by exports, on the one hand, and by imports aimed at satisfying the needs of the capitalists and the upper middle classes, on the other. Due to the high domestic interest rates in effect in most Latin American countries, the government and local state bodies pay a high price for money borrowed from local capitalists. These borrowed funds are used to service both foreign and domestic debt owed to these same capitalists and to capitalists from the North.

Since state bodies have to pay so much for money borrowed on domestic financial markets, and since this money is not enough to pay off previous debts, governments and private companies issue debt paper on international markets. This is actually less costly, since interest rates in the North are currently lower than in countries like Brazil, Mexico and Argentina. The problem, of course, is that these countries become even more dependent on external markets and trends. Several times a year, the big Latin American countries issue debt paper on international markets. The money raised through such issues goes mostly towards paying off holders of previous debt issues. A striking example of dependence on the US, some Latin American countries – especially Mexico – have to purchase US

Treasury Bonds to guarantee their own borrowing on international markets. Simply put, the US authorities raise funds among their Southern neighbours in order to finance the US public debt, while these same Southern neighbours seek out capital on private financial markets in the US and Europe in order to pay off their foreign and domestic debts.

The fundamental problem here is that such policies do not lead to a process of cumulative development by which these countries could catch up with the industrialised powers of the North. Trade imbalances have actually grown, whatever the optimistic pronouncements of Latin American leaders. This is due to the structure of Latin American exports to the world market. Whatever the level of industrialisation, these countries remain far behind the North. According to Oscar Ugarteche, there has even been a 're-primarisation' of Latin American exports in recent years – in that proportionally Latin America exports more low value-added ('primary') products than before (Ugarteche, 1996). At the same time, industries targeting the domestic market have stagnated or declined, whether they have remained in domestic hands or been sold off to foreign interests. Foreign investors are rarely interested in boosting both employment and production. There are exceptions: the auto sector in Argentina, Brazil and Venezuela, and some investments in the oil sector; but these are marginal. Multinationals, with American MNCs in the lead, seek to bolster their control over local economies, not to develop them.

### NEW DEBT SPIRAL FOR LATIN AMERICA

Unlike Africa and South Asia, financial markets are once again very interested in Latin America. They hold more than 65 per cent of the continent's foreign debt. It is primarily by holding so much private and public debt paper that financial markets have been able to increase their control over Latin America's foreign debt. The total value of Latin American debt paper increased twenty-fold between 1980 and 1996.

Since the beginning of the 1990s, Latin America has entered a new cycle of debt. The new neo-liberal policy of opening up to foreign capital has had real success. Holders of capital from the North are indeed interested once again in investing some of their liquidity in debt paper and on the stock market (portfolio investment). In

exchange, Latin America has had to sell off strategic companies, it has grown more dependent on volatile investment, and it has a structural deficit in the balance of trade whose levels resemble those of the 1980–81 run-up to the last debt crisis.

## DEBT IN SUB-SAHARAN AFRICA ON THE EVE OF THE THIRD MILLENNIUM

Since 1996, reports published by the international financial institutions (IMF, World Bank), the OECD and the media say that sub-Saharan Africa has got off to a new start thanks to adjustment policies in place there.

However, a series of social and economic indicators point in the opposite direction. It is clear that living conditions have actually deteriorated and that economic indicators are in the red.

According to the 1997 edition of the UNDP's *Report on Human Development*, more than 40 per cent of sub-Saharan Africa's population of 590 million (220 million people) live below the threshold of absolute poverty. These people survive on less than \$1 a day. According to the same source, the situation has indeed deteriorated in recent years:

Sub-Saharan Africa has the highest proportion and fastest growth of human poverty. ... Indeed, poverty has come to dominate life far and wide in sub-Saharan Africa ... it is estimated that financial poverty will affect half of sub-Saharan Africa's population by the year 2000. (UNDP, 1997)

In Africa, the economy is not doing any better than the continent's social indicators.

Three economic indicators should be examined to have an idea of the real situation in sub-Saharan Africa: its constantly rising external debt, its rising trade deficit and the low level of private investment.

### The External Debt: A Millstone around Africa's Neck

Sub-Saharan Africa's external debt trebled (by 2.8 times to be exact) between 1980 and 1996, in spite of the \$170 billion made in debt-servicing payments (this includes interest payments and

reimbursement of a part of principal). Sub-Saharan Africa has paid off its 1980 debt twice and more, but is now three times deeper in debt.

Table 14.2 Evolution of sub-Saharan Africa's external debt (\$bn)

1970	1980	1986	1988	1991	1993	1995	1996
7	84.3	140	166	196	200.4	226	235.4

Source: World Bank, *World Debt Tables to 1996* and *Global Development Finance*, 1997, vol. 1.

Every year, sub-Saharan Africa spends four times more on debt-servicing payments than it does on healthcare and education combined.

In spite of the large sums spent on debt since 1980, sub-Saharan Africa has clocked up significant overdue payments – some \$48 billion by 1994 (Alibert, 1996, p. 7).

Another symptom of the growing debt problem is that 31 of the region's 48 countries were classified as heavily indebted poor countries (HIPCs) by the World Bank in 1996. That is six more than in 1994.

### Trade Losses

Sub-Saharan Africa has to use a significant part of its export earnings to pay back its foreign debts, which are all denominated in hard currencies. As a result, the ratio of annual export revenue to overall debt provides some idea of the gravity of the situation. In 1996, total debt was worth 32.7 per cent of total annual exports (not including South Africa). In other words, to pay off its debts, the region would have to hand over all its export earnings continuously for three years and three months.

Changes in the region's balance of trade are crucial to evaluating its ability to pay off its debts. If export earnings are inferior to import spending, it is difficult to see how the debt can be paid without further cuts in social spending and the resulting increase in poverty.

Since the beginning of the 1980s, there has been a deterioration in the terms of trade for sub-Saharan export products on the world market in relation to the products imported from industrialised countries. In spite of a brief boom in the price of some products (coffee,

cocoa) in 1995–96, there is a clear downward trend. Since 1980, the value of a basket of sub-Saharan export products has been halved relative to the value of imports from the North. Africa has reacted to this decline by increasing the overall volume of exports onto the world market – by some 50 per cent between 1985 and 1992. But this is not a solution, since prices for these export products have been dropping faster than those on imports from the North. In fact, in the present system of world trade, the countries of the South are disadvantaged, since any increase in the volume of their exports tends to decrease their value as demand stagnates or falls in the North. Sub-Saharan Africa is particularly disadvantaged since it exports far fewer manufactured goods than Latin America and East and Southeast Asia.

As a result, sub-Saharan Africa's trade deficit continues to rise. More than ten years of IMF and World Bank-dictated structural adjustment policies have produced a devastating economic failure.

Table 14.3 Evolution of the balance of trade in sub-Saharan Africa (\$bn)

1980	1990	1995	1996
2.2	-0.6	-11.4	-11.5

Source: World Bank, *Global Development Finance*, 1997.

### Low Foreign Investment, High MNC Profit Repatriation

In 1995, sub-Saharan Africa accounted for only 1 per cent of foreign direct investment (FDI) made in developing countries – \$2.2 billion in FDI out of a total of \$240.3 billion (Alibert, 1996, p. 6). The situation is even worse given that 90 per cent of this investment is made in a handful of the region's 48 countries – South Africa, and a few oil and mineral-producing countries such as Nigeria, Angola, Gabon and Cameroon.

Table 14.4 Net flow of foreign direct investment in sub-Saharan Africa (\$bn)

1980	1990	1994	1995	1996
0	0.9	3	2.2	2.6

Source: World Bank, *Global Development Finance*, 1997.

Sub-Saharan Africa receives little FDI, but this does not prevent the head offices of MNCs operating in the region from repatriating their profits to the North. In 1995, repatriated profits were worth twice as much as total FDI.

Table 14.5 Profit repatriation by MNCs operating in sub-Saharan Africa (\$bn)

1980	1990	1995	1996
4	4.5	4.4	4.2

Source: World Bank, *Global Development Finance*, 1997.

### **Sub-Saharan Africa is Bleeding**

The three phenomena described above can be summarised in the following way: growing debt burden in spite of large debt payments; unequal trade creating a growing trade deficit; repatriation of relatively high sums of profits to North-based MNCs while FDI remains very low. When all the negative effects of this state of affairs are added up, it becomes clear that the media and international financial institutions' favourable reports on Africa are little more than downright falsifications.

This appreciation is confirmed in the IMF's own internal documents, where one can occasionally find analyses that stray a long way from the optimistic proclamations of official press statements. For example:

The debt burden remains extremely high, accumulated overdue payments increase this burden further still. This can be seen in the fact that most countries on the continent owe total debt that is four times annual export earnings.

Only a few countries show signs of being able to service such high debt. For most of the others, however, actual debt servicing accounts for more than twice incoming funds from lenders and donors. The danger is that excessive debt will be an obstacle to direct investment and other private capital flows. (IMF, 1995)

## **Specific Features of Sub-Saharan Africa's Foreign Debt in the 1990s**

Unlike most Latin American and Southeast Asian countries, sub-Saharan Africa (excluding South Africa, Côte d'Ivoire and Nigeria) no longer has access to financial markets. Bank loans are few and far between, accounting for only 2 per cent of the region's total debt load. Furthermore, by 1996, 98 per cent of these loans were made to South Africa. Foreign financial markets are at best uninspired by the public bond issues of the region's governments. Such bonds account for only 2 per cent of sub-Saharan Africa's foreign debt – with 90 per cent of this tiny investment in bonds going towards four countries, with South Africa again in the lead.

Another indicator of the lack of financial market interest in Africa is the low level of portfolio investment (especially with respect to the purchase of company shares). Such investment is barely more than FDI, and 89 per cent of it went to South Africa in 1996.

In recent years, private banks have been reimbursed by the debtor countries in question and by the governments of the North, who hold almost half of sub-Saharan African debt (not including South Africa, which is still in the banks' good books). The international financial institutions (World Bank, IMF, African Development Bank) hold more than a third of this debt. The poorer an African country is, the more its debt is held by the international financial institutions (IFIs). For example, 79 per cent of Burundi's debt is held by IFIs; 81 per cent of the Rwandan debt; 77 per cent of the Central African Republic's debt; 61 per cent of Guinea Bissau's and 77 per cent of Uganda's debt (Alibert, 1996). Aside from a few exceptions, sub-Saharan Africa's debt is held by the IFIs and the governments of the North (especially the former colonial powers). The IFIs, especially the World Bank and the IMF, take in more from African countries than they provide to them in loans (UNDP, 1994). The IFIs are always the first to be reimbursed. A significant portion of official development assistance provided by the countries of the North is used to pay back the IFIs. Aside from South Africa (given the weight of its economy and the strength of its capitalist class) the region's governments are very much under the thumb of the IMF, the World Bank and Paris Club. The Paris Club, which brings together the various lender governments of the North, gives the World Bank and the IMF a free hand to determine the policies debtor countries should implement.

## DEBT RELIEF MEASURES: A DROP IN THE OCEAN

Since 1994, the Paris Club has been negotiating case-by-case debt reductions with specific debtor countries selected for being good pupils of the IMF. The Paris Club has been wholly dishonest in its promotion of the specifically Africa-oriented segment of this initiative. It has claimed that up to 80 per cent would be chopped off total bilateral debt. In fact, the conditions a country must meet in order to qualify are so Draconian that the reduction amounts to very little indeed. Uganda was the first country to benefit from such Paris Club 'largesse': its total foreign debt was reduced by a mere 3 per cent. One figure puts the lie to all talk of debt reduction: in 1995, less than 1 per cent of total sub-Saharan African debt was erased by various debt cancellation and debt relief measures (World Bank, 1997). As for the new IMF–World Bank–Paris Club 1996 initiative, we can be certain that it will also amount to little or nothing. The whole operation aims only to make debt servicing a little more 'bearable' for the heavily indebted poor countries, whose total debt is more than \$200 billion. The first round of reductions is expected for 1998, but most will only take effect after the year 2000.

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# Case Studies

## ARGENTINA

### **Debt and Dictatorship**

Argentina's foreign debt skyrocketed under the military dictatorship of General Videla, which lasted from 1976 to 1981. From 2 April 1976 onwards, the Minister of the Economy, Martinez de Hoz, pursued an economic policy that marked the beginning of a process that devastated the country's productive apparatus – and paved the way for a speculative economy that has bled the country dry. Most of the loan money granted to the Argentinian dictatorship came from private banks from the North. It is important to note that the US authorities (both the Federal Reserve and the administration) fully supported Argentina's policy of debt accumulation. The architects of Argentina's policy of debt accumulation were de Hoz and the Secretary of State for Economic Coordination and Planning, Guillermo Walter Klein. In order to secure credit from private banks, the government forced state-owned companies to borrow from international private banks. State-owned companies became the cornerstone of a strategy aimed at denationalising the state, through an accumulation of debt that has forced the country to sacrifice much of its national sovereignty.

### **Forcing Debt on State-owned Companies**

This is how the main Argentinian state-owned company – the Yacimientos Petroliferos Fiscales (YPF) oil company – was forced to take on foreign debt even though it had sufficient funds for its own

expansion. At the time of the 24 March 1976 military coup, YPF's foreign debt was \$372 million. Seven years later – when the dictatorship fell – it owed \$6 billion. Its debt had been multiplied by 16 in seven years.

Hardly a cent of the borrowed foreign funds actually went into the company coffers; the money lined the regime's pockets. Under the dictatorship, productivity per worker at YPF jumped by 80 per cent; the total number of workers at YPF fell from 47,000 to 34,000. In order to boost its own earnings, the dictatorship reduced by 50 per cent the subsidy it gave YPF for petrol sales to the population. Moreover, YPF was obliged to have the oil it extracted refined by private multinationals (Shell and Esso). Given its sound financial health before the dictatorship, it could have had its own refinery. By June 1982, not a cent of company assets was debt-free.

## **Government Debt**

The IMF and those in charge of the dictatorship's economic policy argued that massive government debt was justified, since the country needed to boost its hard currency reserves if it wanted to open up the economy from a position of strength. A sound economic policy would have sought increased foreign reserves in the country's international trading activity. Instead, the dictatorship obtained its foreign currency by going into debt.

These foreign reserves were neither managed nor supervised by the central bank. In fact, the huge sums borrowed from the North's banks were usually deposited right back into the same banks; or at least into competing institutions. In 1979, 83 per cent of these reserves were deposited in foreign banking institutions. The reserves were worth \$10.1 billion; deposits in foreign accounts totalled \$8.4 billion. That same year, foreign debt rose from \$12.5 billion to \$19 billion (Olmos, 1990). Of course, interest earned on these foreign deposits was lower than interest owing on the borrowed amounts.

The Argentinian authorities pursued this line of action for the following reasons: first, individuals in the regime grew rich off the commissions offered by the North's banks; second, increased foreign reserves meant a significantly increased capacity to import – in particular, to import arms; third, the policy of economic liberalisation and debt accumulation recommended by the IMF, improved the dictatorship's credibility with the main industrialised countries,

especially with the US. The dictatorship would not have been able to sustain the initial years of domestic terror (1976–80) without the blessing of the US administration.

For its part, the US Federal Reserve was all the more favourably inclined to the dictatorship's policies since most of the borrowed money was deposited in US banks. From the point of view of the US administration and the IMF, Argentina's growing debt load was bringing the country back into the US fold – after decades during which Argentina had been something of a nationalist rebel and achieved real economic progress within the framework of the Peronist system.

### **Private Sector Debt**

Private Argentinian companies and Argentinian subsidiaries of foreign MNCs were also encouraged to amass debt. Private debt rose to more than \$14 billion.

### **Conflicts of Interest**

Walter Klein was Secretary of State for Economic Coordination and Planning from 1976 until March 1981. At the same time, he headed a private legal firm that represented the interests of foreign creditors in Buenos Aires. When he joined the military regime, his firm represented the interests of one bank, the Scandinavian Enskilda Bank. A few years later, it represented the interests of 22 foreign banks. In March 1981, he left his government job as General Viola was replacing General Videla at the head of the dictatorship. A few weeks later – 7 April 1982, five days after the Argentinian armed forces had occupied the Malvinas (Falkland Islands) and Britain had declared war – Klein was made the official representative in Buenos Aires of the British-based Barclays Bank Limited, one of the main private holders of Argentinian public and private debt. When the dictatorship fell and Raúl Alfonsín came to power in 1984, his legal firm continued in its role as defender of the interests of foreign creditors.

### **After the Military Dictatorship: Alfonsín and Impunity**

The central bank announced that it had no record of public foreign debt. Indeed, post-dictatorship government officials have had to rely

on the claims of foreign creditors and on contracts signed by officials in the military dictatorship, even though such contracts had never been approved by the central bank.

Nevertheless, the first post-dictatorship government of President Alfonsin decided to honour the dictatorship era debt in its entirety, public and private. Just as the military's torturers were amnestied under the 1986 'Full Stop' and 'Obeying Orders' laws, so too were those in charge of the dictatorship's economic policy treated with clemency. Most of the dictatorship's top economic and financial officials retained their jobs in the state apparatus; some were even promoted. Military officials responsible for the repression that claimed at least 30,000 lives also kept their jobs, or were granted early retirement. A scandal erupted when one of them, Captain Astiz, finally broke the rule of silence observed by the dictatorship's military officials: 'In 1982, a friend asked me if there had indeed been disappearances. I replied, "Of course, there were 6,500, even more; but no more than 10,000. All of them were eliminated."' (*Le Soir*, 16 January 1998).

### **When the State Honours Private Debt**

The long list of indebted private companies included the Argentinian subsidiaries of MNCs: for example, Renault Argentina, Mercedes-Benz Argentina, Ford Motor Argentina, IBM Argentina, Citibank, First National Bank of Boston, Chase Manhattan Bank, Bank of America and Deutsche Bank.

The Argentinian government paid off these private companies' creditors: Renault France, Mercedes Benz, Citibank, Chase Manhattan Bank, Bank of America, First National Bank of Boston, Crédit Lyonnais, Deutsche Bank and Société Générale.

In other words, Argentinian taxpayers repaid debt contracted by the subsidiaries of MNCs with their head offices, or with international banks. It is reasonable to suspect that the MNCs in question actually engineered the debt of their Argentinian subsidiaries with some creative accounting. Argentinian government officials have no way of verifying this information.

### **A Wave of Privatisation**

In 1990–92, the government of Alfonsin's successor, Carlos Saul Menem, undertook a vast programme of privatisation, selling off

most of the nation's wealth at rock-bottom prices. It is estimated that the country lost \$60 billion in the process. Menem argued that Argentina's state-owned companies were deeply in debt in order to justify the sell-off. Yet their poor financial position resulted from the debt load they had been forced to take on by the dictatorship; most of the borrowed funds never made it into company coffers.

Menem asked the US investment bank and brokerage firm Merrill Lynch to determine the value of YPF. Merrill Lynch deliberately underestimated company oil reserves by 30 per cent in order to lower YPF's paper value before privatisation. Once the privatisation had been carried out, the hidden reserves were factored back into the company's assets; financial operators who had bought company stock at a low price made huge profits when YPF share values subsequently rose. The windfall also led many to vaunt the superiority of private companies over state-owned ones.

It is interesting to note that in 1997 Brazilian president Fernando Henrique Cardoso asked the same US firm, Merrill Lynch, to determine the value of the country's main state-owned concern, the mining company Vale do Rio Doce. A number of Brazilian members of parliament have accused Merrill Lynch of undervaluing the company's mineral reserves by 75 per cent (*O Globo*, 8 April 1997).

Apart from YPF, another Argentinian gem was sold for a song: Aerolineas Argentinas. The airline's Boeing 707s were sold for a token sum – \$1.54, to be exact! A few years on, these planes continue to work the routes of the now privatised company. The value of the company's rights over certain routes – \$800 million – was estimated to be only \$60 million before privatisation. The company was sold to the private sector for \$130 million in cash; the rest was made up of debt write-offs. State-owned companies were privatised free of debt, which was instead absorbed by the public purse.

### **The Dictatorship on Trial**

After the fall of the dictatorship, the debt scandal did not fail to attract public attention. The first civilian government established a parliamentary commission, which was dissolved after 18 months of deliberations. Its findings were considered to be too threatening to Alfonsin's economic policy, given that in the meantime he had decided to nationalise the debt. Menem, the current president, had at

one time also railed against the debt; once in power, though, he abandoned all talk of revisiting this eminently taboo subject.

In spite of all the delays and compromises, a trial is now underway. It is the result of a complaint lodged by an Argentinian citizen in October 1982, while the country was still ruled by a dictatorship. Thanks to this courageous and tireless journalist, the question of who is responsible for the country's debt burden is now being examined by the judicial authorities. Many of the dictatorship's economic officials and heads of state-owned companies have had to testify at trial hearings. Walter Klein's legal firm has been searched; most of the documents from the period in question have been seized and placed in safekeeping at the Central Bank. Sixteen years later, despite indisputable proof of the guilt of people such as de Hoz and Klein, the trial has not reached any conclusions. There is reason to fear that the guilty parties will never be punished.

In the meantime, Argentina has been paying astronomical sums to service its debts – which hasn't prevented the total owing from rising. Strategic state-owned companies are now in private hands. The central bank has not been authorised to create money since the April 1991 Menem government decision to set up a currency board. Under this system, the number of pesos in circulation is scrupulously limited to a fixed ratio of the amount of hard foreign currency held by the central bank (Cartapanis *et al.*, 1996).

In 1976, Argentina owed \$8.2 billion to foreign creditors. In 1980, it owed \$27.1 billion; in 1983, \$43.5 billion; in 1993, \$74.5 billion; in 1995, \$84 billion. By 1996, the country owed \$96.2 billion dollars to foreign creditors.

## MEXICO

### **1982 to 1998: Mired in Debt**

Mexico is at the heart of the 'debt crisis'. The crisis is said to have begun in August 1982, when Mexican authorities announced that they would no longer be able to meet their debt-service payments. This sounded the alarm for private US banks; in the end, however, the US federal government bailed them out. It saved a number of small banks known as Savings and Loans, which had become heavily involved in the Mexican economy. The Reagan administration negotiated a number of successive agreements with Mexico in order

to ensure ongoing debt-service payments in exchange for a marginal decrease and rescheduling of the debt load.

In 1982, Mexico's total foreign debt was \$95 billion. During the following six years, Mexico paid out \$102 billion in interest payments and principal repayment. The Mexican debt nevertheless increased to \$112 billion by 1988 (George, 1992). Between 1988 and 1994, Mexico paid \$125 billion in debt-service repayments – funds drawn in part from privatisation receipts. Yet, for all that, Mexican debt did not decrease. On the contrary, foreign debt was \$130 billion in 1994. Current president Ernesto Zedillo has promised to repay the 'aid' provided in 1994–95 – primarily by the US (but also by the Bank for International Settlements and the IMF) – to rescue financial markets. With this in mind, Faprode (an independent research institute) estimated in late 1995 that Mexican debt totalled more than \$180 billion (the OECD calculates that it totalled \$134.4 billion in late 1995).

For Mexico, as for other Third World countries, foreign debt repayment involves a huge transfer of revenue from small and medium-sized producers to capitalists holding foreign debt paper. Among these capitalists, one finds Mexican capitalists who hold some of this foreign debt paper, purchased with capital they shifted onto foreign financial markets. In addition to this transfer of wealth, since the December 1994 crisis a part of Mexican oil revenues has been channelled through a US account which US officials can freeze if ever debt-service payments are not met. This is a blatant symbol of Mexico's renewed submission to the US. At the beginning of 1997, in an attempt to escape this humiliating predicament, the Mexican authorities made an early payment of \$10 billion to the US Federal Reserve.

### **Privatisation and Heightened Dependence on the US**

President Carlos Salinas de Gortari used his six years in power (late 1988 until late 1994) to extend the neo-liberal policies initiated by his predecessor Miguel de la Madrid in 1982. Under Salinas, the banking sector was privatised, with large segments falling into the hands of US capital; and an agrarian counter-reform was enacted through amendments to Article 27 of the Constitution, which granted 50 per cent of arable land to peasants and small farmers. This counter-reform reduced the collective property accessible to

peasants and small farmers, and served the interests of the big domestic and foreign agro-export companies. Furthermore, the state-owned industrial sector was thoroughly restructured and, for the most part, also privatised. MNCs have tightened their grip on the Mexican economy. This neo-liberal shock therapy was designed to prepare Mexican capitalists to prosper within the new North American Free Trade Agreement (NAFTA) zone linking the US, Canada and Mexico.

The wave of privatisations initiated in 1982 by President de la Madrid has been breathtaking in its scope. Of the 1,550 state-owned companies that existed in 1982, about 100 remain in state hands. Privatisation has led to a pronounced concentration of capital in a few private hands. Currently ten groups control 71.2 per cent of shares quoted on the Mexico City stock exchange. Privatisation has enabled capitalists to acquire companies at cut-rate prices, and to repatriate dollars invested abroad, no questions asked. For foreign capital, privatisation has been a heaven-sent invitation to buy up companies in strategic sectors, such as telecommunications. The funds that have entered Mexico have not created any jobs; indeed, they have been used to buy up companies that already existed, and then to 'streamline' them of a number of their employees. When NAFTA came into effect, Mexico did not come out on top; in fact, the trade deficit with its neighbours actually increased.

To make matters worse, much of the capital on the stock market was very volatile. The investors in question were at the ready to sell off their shares in order to tap into better profit opportunities elsewhere. Between April and December 1994, this money took flight (Toussaint, 1994; in this article, I noted that capital flight had begun before the August 1994 elections, paving the way for the December 1994 crisis).

By the end of 1995, Mexican capital deposited in US accounts totalled \$24.6 billion – that is, twice the total of the previous year. Current Mexican president Ernesto Zedillo has the temerity to say that the \$100 billion that entered the country during the Salinas presidency were speculative, incorrectly included in calculations of national revenue: 'Those revenues did not belong to us.' He does not mention the fact that, in order to attract this speculative capital, the government auctioned off state-owned companies that did indeed belong to the nation.

At the end of the day, the combination of privatisation and NAFTA has deepened Mexico's renewed dependence on its northern neighbour.

### Social Effects of Neo-Liberal Policies

In 1995, the fortune of the wealthiest Mexican was 6.6 billion dollars – equal to the combined total annual income of 17 million of his poorest compatriots. (UNDP, 1997)

The neo-liberal policies implemented since 1982 have increased structural unemployment. Mexico should have created 12 million jobs between 1982 and 1994 to meet the demands of a growing population; only 2.4 million were created. The crisis unleashed by capital flight in December 1994 wiped out 850,000 jobs in 1995; the country's GDP fell 6.9 per cent in 1995. By 1997, the country had a job deficit of 20 million, for a population of 91.9 million. By April 1997, it was estimated that there were the same number of jobs in absolute terms as before the December 1994 crisis; in the meantime, however, 2 million more people had entered the labour market.

There has also been a calamitous fall in purchasing power. The minimum monthly wage is \$100. A rural school teacher earns \$200 per month. In 1996, the minimum wage dropped to its lowest level since it was created in 1935 under Lazaro Cardenas. According to the Confederation of Mexican Employers (Coparmex), only 3.5 workers out of every 10 (34.6 per cent, to be exact) earn \$200 or more per month. Coparmex also says that 15 per cent of workers receive no money wage whatever (5 million workers, of whom 3.2 million work in agriculture), 20 per cent earn less than the \$100 monthly minimum wage, and the remaining 30 per cent make between one and two minimum wages per month (*La Jornada*, 21 July 1996). The situation is much worse for women: fewer than 20 per cent of women workers earn \$200 per month or more.

Between 1977 and 1996, the minimum wage lost 80.8 per cent of its buying power.

Workers must work 3.2 times longer today in order to replicate 1970 consumption levels. In 1976, wages accounted for 40.3 per cent of GDP; today they account for less than 21 per cent.

The middle classes, small producers, small businesspeople, and a section of the professional classes have also been severely hit by neo-liberal policies, especially since the December 1994 crisis. Debt has grown to unsustainable levels in these sectors of the population. One-third of private bank customers – 4 million people – are insolvent (in 1996, annual bank interest rates were nearly 45 per cent). One result has been the emergence of a 'debtors movement', known by the name of the umbrella organisation *El Barzón*. This movement describes itself as a 'regrouping of the middle classes, whose relative comfort is threatened'; it has 1.8 million members (see interview with *El Barzón* national leader Juan José Quirino, *La Jornada*, 21 July 1996).

Apart from the increase in the job deficit, the fall in purchasing power and the rise in personal debt, there are other ways to measure Mexico's social disaster: 21 million Mexicans have no access to basic education; 15,000 schools have only one teacher; 50 per cent of the population has no social protection; and 20 per cent of children suffer from malnutrition. According to the UN-funded Economic Commission for Latin America (CEPAL), between 1982 and 1992 the number of Mexicans living in poverty rose from 48.5 million to 66 million. In 1982, 16.2 per cent of the poor lived in conditions of extreme poverty; by 1992, the proportion was 48.6 per cent.

### Social Movements: Fragmented Resistance

The forms of social resistance have been uneven, in a patently unfavourable climate for the working classes. Admittedly, there have been encouraging signs – like the second consecutive independent May Day trade union mobilisation held in 1996. Several hundred thousand demonstrators took to the streets across the country that day – in spite of opposition from the eternal *líder máximo* of the ruling party-controlled trade union movement, Fidel Velazquez (who died in 1997, well into his nineties). May Day 1996 was an historic event; the new 'May First Inter-Union' grouping played a central role.

The *El Barzón* debtors' movement has also organised major protest actions and demonstrations among the middle classes. This movement, oriented towards non-proletarian sectors of the population, could well radicalise leftwards. One encouraging sign, for example, was the July 1996 national gathering it held in a Zapatista

bastion *par excellence*: the community of La Realidad in the southern state of Chiapas.

Another sign of rising discontent has been protest activity from the poorest sectors of the population. On 30 May 1996, at San Nicolás de los Garza, a large number of poor people attacked a train transporting corn, Mexico's staple food. Corn is being imported in ever greater quantities from the US; previously, Mexico was self-sufficient. The poor ambushed the train in order to eat. In July 1996, in a state in the north of the country, day labourers from the southern state of Oaxaca looted shops of their food supplies. They were driven by hunger, plain and simple.

However, this vast manifestation of protest and direct action has not come together under a common umbrella. Moreover, the ruling Institutional Revolutionary Party (PRI) still controls most factory worker trade unions. The success of independent protest on 1 May 1996 highlights the growing crisis of the PRI system of control over mass movements; but an alternative is emerging only slowly and very unevenly.

### **Regime Down but Not Out**

There is certainly no shortage of signs that the regime is in crisis: the failure of neo-liberal policies carried out since 1982; the victory of Cuauhtemoc Cárdenas – leader of the centre-left Party of the Democratic Revolution (PRD) – in Mexico City's first mayoral election on 6 July 1997; the PRI's loss of its absolute majority in the national Congress as a result of the July 1997 elections; election victories by the right-wing National Action Party (PAN) in a number of states; internal struggles within the PRI (including the assassination of two main PRI leaders – Colosio and Massieu – in 1994, probably under orders from opposing factions; the Irish exile of former president Salinas and the imprisonment of his brother, Raul; the partial loss of PRI control over mass movements; government agreement to negotiate with the Zapatista Army for National Liberation (EZLN) indigenous armed rebellion; and growing PRI involvement in criminal activities (especially in the rapidly growing drug trade to the US). There can be no denying that there is a crisis.

The following commentary from Rhina Roux is straight to the point:

We are currently living through a profound political crisis. It is not a crisis of the building of a system, but rather of its very ability to function and reproduce itself. It is fundamentally a crisis affecting the three constituent dimensions of the state: firstly, the way the regime is structured; secondly, the relationship of domination between rulers and the ruled; thirdly, the functioning and reproduction of the ruling elite. This is not a government crisis, nor is it a crisis of the current ruling group. Rather, the current crisis is a crisis of the very form of the state. (*Viento del Sur*, Mexico City, July 1994)

The crisis began with the 1988 elections, which were won by the main opposition candidate, Cardenas. He was denied victory through an enormous PRI-orchestrated electoral fraud. A huge mass movement against the fraud shook the regime. The January 1994 Zapatista rebellion was the second shock wave, amplified by the December 1994 economic crisis. The latest blow to the regime was the July 1997 elections. Taken together, these knocks have sharpened conflicts within the regime itself. Thus far, however, the country has not seen a rising momentum of social forces capable of delivering a knock-out blow to the regime, as part of a process of growing experience, strength and consciousness. The direction taken after 1988 by the main progressive opposition party, the PRD, has disoriented and profoundly disappointed broad sectors of the mass movement (Toussaint, 1996c). Thanks to the EZLN's boldness and the gigantic mobilisation against repression of the indigenous rebellion, it was able to force the regime to the negotiating table between 1994 and 1996.

But the regime still has a number of tricks up its sleeve; for example, it led negotiations with the EZLN into an impasse. It has succeeded in waging a low-intensity war against grassroots movements, especially against small farmers and indigenous communities, by placing the army on a permanent war footing in a number of states (Chiapas, Guerrero, Oaxaca, Tabasco). In two years, the Mexican army has grown considerably; most of the armed forces are permanently deployed outside barracks. The judiciary and police apparatus have also grown more active; more and more grassroots activists are being arrested, leading many movements to turn inwards. The dirtiest repressive work is carried out by private militia linked to big capitalists and landowners ensconced in the PRI machine. The December 1997

massacre of 45 Tzotzil Mayan Indians in the village of Acteal in the state of Chiapas by PRI militiamen, is further proof that the PRI-run state is seeking to provoke the EZLN into open armed conflict.

Chiapas is no exception; in other regions, and in some cities, selective assassinations are a regular occurrence. The guilty are never found. Yet the PRI is also keeping in mind Napoleon's dictum, 'You can do everything with bayonets except sit on them'; it is trying, with some success, to maintain its control over organisations of farmers and industrial workers, while reducing the leverage of some sectors of the PRI trade-union bureaucracy. And the PRI has a firm grip on the television networks.

It is difficult to foresee any rapid resolution of the crisis of the Mexican regime; and even less of the debt crisis.

## RWANDA

### **The 1994 Genocide**

Beginning on 7 April 1994, within a period of three months, more than one million Rwandans – the exact figure has yet to be determined – were exterminated because they were Tutsis or thought to be. Several tens of thousands of Hutus were also killed – political opponents of the regime and people who refused or might have refused to support the genocide. The population of Rwanda before the atrocities is estimated to have been about 7.5 million.

Comparisons with the genocide of the Jews and Gypsies are fully justified. Of course, there are differences: the absolute number of victims (the Nazis murdered 6 million Jews) and the methods used (the Nazis designed and used industrial techniques to implement the Final Solution).

But there was indeed a genocide in Rwanda – that is, the planned destruction of an entire community through mass murder, with the objective of preventing it from reproducing itself biologically and socially.

### **Policies of the Multilateral Financial Institutions**

It is crucial that we examine the role of international lenders. My contention is that the policies imposed by the international financial institutions – the Habyarimana regime's main lenders – accelerated the process which led to genocide. In general, the negative repercus-

sions of these policies is not taken into consideration to explain the dramatic conclusion of the Rwandan crisis. Only a handful of scholars have highlighted the responsibility of the Bretton Woods institutions (such as Chossudovsky, 1994). The institutions themselves reject all criticism on this score. More surprising, some authors with links to NGOs have also published studies that seek to tone down criticism of the World Bank and the IMF's role (Woodward, 1996).

At the beginning of the 1980s, when the Third World debt crisis broke, Rwanda (like its neighbour Burundi) had very low debt. Elsewhere, the World Bank and the IMF jettisoned their policy of active lending, preaching austerity instead. In Rwanda, however, they adopted a different approach, and began to lend large sums. Rwanda's foreign debt increased twenty-fold between 1976 and 1994. In 1976, it stood at \$49 million; by 1994, it was more than \$1 billion. Most of this growth took place after 1982. The country's main lenders were the World Bank, the IMF and related institutions. The World Bank and the IMF played the most active role; they hold more than 75 per cent of Rwanda's foreign debt.

The dictatorial regime in place since 1973 was a guarantee against progressive structural change. For this reason, it received the active backing of Western powers, particularly of Belgium, France and Switzerland. It was a bulwark against those states in the region that sought to protect their independence and effect progressive change (neighbouring Tanzania, for example).

Between 1980 and 1994, Rwanda received large sums in loan money; the Habyarimana dictatorship channelled a significant share of this money into its own coffers. The loans were meant to help Rwanda more fully integrate into the world economy by developing its coffee, tea and tin-exporting capacities, to the detriment of crops destined for domestic consumption. This model worked until the mid-1980s, when world tin prices collapsed – soon followed by world coffee and tea prices. Rwanda, for whom coffee was the main source of hard currency, was devastated when the US broke up the coffee cartel in the early 1990s.

### **International Loans used to Prepare Genocide**

A few weeks before the Rwandan Patriotic Front (FPR) launched its October 1990 offensive, the Rwandan authorities signed an

agreement with the IMF and the World Bank to implement a structural adjustment programme (SAP).

The SAP was implemented in November 1990, one of the first measures being a 67 per cent devaluation of the Rwandan franc. In exchange, the IMF provided credit in the form of quick disbursing loans to enable the country to maintain the flow of imports. As a result, the country was able to set right its balance of payments. There was a meteoric rise in the price of imported goods; petrol rose by 79 per cent. Earnings from the sale of imported goods on the domestic market enabled the government to pay the salaries of members of the armed forces, whose ranks were growing rapidly in size. The SAP prescribed a drop in public spending; there were indeed wage freezes and dismissals in the public sector, but part of the savings were transferred to the armed forces.

While import prices soared, in response to IMF insistence the price at which coffee was bought from local producers was frozen. As a result, hundreds of thousands of small coffee farmers were ruined (Maton, 1994). Alongside the poorest sectors of the urban population, these destitute farmers became a permanent reservoir of recruits for the Interahamwe militia and the army.

The measures imposed by the World Bank and the IMF in the SAP included: increased taxes on consumption and lower business taxes; increased direct taxes on low-income households through a reduction in tax allowances for large families; and cuts in lending programmes for small farmers.

To account for the sums loaned by the World Bank and the IMF, Rwanda was authorised to show old invoices for imported goods. Within the bounds of this system, the regime financed massive arms purchases. Military spending tripled between 1990 and 1992 (Nouhungirehe, 1995). The World Bank and the IMF sent several delegations of experts during this time; they highlighted the positive features of Habyarimana's austerity policies but none the less threatened to suspend credit unless military spending stopped increasing. The Rwandan authorities manoeuvred their way around these restrictions in order to hide rising military spending. Lorries imported for the army were put on the Transport Ministry's account; a significant share of the petrol used for militia and army vehicles was put on the Health Ministry's account; and so on.

Finally, the World Bank and the IMF suspended financing at the beginning of 1993 – but did not freeze the large sums of money held

on account in large foreign banks, which the regime used to buy arms. It can be argued that the Washington-based institutions failed in their duty to monitor the way in which loan money was used. They should have suspended credit in early 1992, when they realised that the money was being used for arms purchases. They should have alerted the UN. By continuing to provide financing until early 1993, they helped a regime that was preparing a genocide. Since 1991, human rights organisations had been reporting and condemning the massacres that paved the way to genocide.

### Rising Social Conflict

For the genocidal enterprise to get underway, it was not sufficient to have a regime drawing up the blueprint and stocking the required hardware. The country also needed an impoverished and 'lumpenised' citizenry, ready to do the irreparable. In Rwanda, 90 per cent of the population live in the countryside, 20 per cent of peasant families own less than half an acre. Between 1982 and 1994, there was large-scale impoverishment of the majority of the rural population; at the same time, a tiny section of the population grew fabulously rich. According to Jef Maton, in 1982, the wealthiest 10 per cent of the population received 20 per cent of rural revenues; in 1992, they received 41 per cent; in 1993, 45 per cent; and by the beginning of 1994, 51 per cent (Maton, 1994). The catastrophic social impact of policies dictated by the IMF–World Bank combine and the fall in world market coffee prices (a fall linked to the policies of the Bretton Woods institutions and the US), played a central role in the Rwandan crisis. The Habyarimana regime channelled profound social discontent into implementing its plan for genocide.

### The Genocide's Financiers

Between 1990 and 1994, Rwanda's main arms suppliers were France, Belgium, South Africa, Egypt and China. China also provided 500,000 machetes. Egypt – whose joint Minister of Foreign Affairs, responsible for relations with the African continent, was none other than Boutros Boutros-Ghali – granted Rwanda a \$6 million interest-free loan in 1991 to purchase arms for its infantry divisions. When the genocide got underway, France and the British firm Mil-Tec provided arms to the rampaging army through the Goma airport

across the border in Zaire – violating the 11 May 1994 UN embargo on arms sales to Rwanda (Toussaint, 1996b). Once the Rwandan capital, Kigali, had been overrun by the opposition FPR, many key leaders of the genocidal army were received by the French president. Rwandan leaders-in-exile set up the head office of the Banque Nationale du Rwanda in Goma, with the help of the French army. Until August 1994, the Banque disbursed funds to repay debts for previous arms purchases and to buy new arms. Private banks (Belgolaise, Générale de Banque, BNP, Dresdner Bank, among others) accepted payment orders from those responsible for the genocide and repaid those who financed the genocide.

Today, Rwanda's foreign debt stands at \$1.6 billion. Almost every cent was incurred by the Habyarimana regime.

### Rwanda after the Genocide

After the fall of the dictatorship in July 1994, the World Bank and the IMF demanded that the new Rwandan government limit the number of public sector employees to 50 per cent of the number agreed upon before the genocide. The new government complied.

Initial financial assistance provided by the US and Belgium in late 1994 went towards repaying the Habyarimana regime's debt arrears with the World Bank. Financial aid from the West is trickling into the country. Yet the country's needs are enormous: it must rebuild itself and provide for the more than 800,000 refugees on its soil since November 1996.

According to David Woodward's report for Oxfam, agricultural production did recover somewhat in 1996. However, it is 38 per cent lower than usual first harvests and 28 per cent lower than usual second harvests. Industry is taking a longer time to recover: only 54 of 88 industrial concerns in operation before April 1994 have renewed activity; most are operating well below previous levels. At the end of 1995, the total value of industrial production was 47 per cent of its 1990 levels.

A 20 per cent wage increase in the public sector in January 1996 was the first such rise since 1981; official estimates, however, are that 80 per cent of public sector workers live below the poverty line. It comes as no surprise that Rwandans prefer to work in NGOs as drivers and cooks rather than in the public sector. These poverty statistics are not peculiar to the public sector: in 1996, the World

Bank estimated that 85–95 per cent of Rwandans lived below the threshold of absolute poverty.

Worthy of note is the major increase in the number of households run by women: from 21.7 per cent before the genocide to 29.3 per cent now, with peaks of 40 per cent in some districts. Their situation is particularly disturbing in view of the profound discrimination against women in such matters as inheritance, access to credit and property rights. Even before the genocide, 35 per cent of women heads of households earned less than 5,000 Rwandan francs (\$17) per month; the corresponding figure for men was 22 per cent.

In spite of a high rate of adoption of orphans (from the genocide and AIDS deaths), there are between 95,000 and 150,000 children without families.

In the education system, only 65 per cent of children are enrolled in primary schools; and no more than 8 per cent in secondary schools (Woodward, 1996).

One statistic tells the whole tragic tale: average life expectancy in Rwanda fell from 42.3 years in 1960 to 23.1 years in 1994 (UNDP, 1997).

Beginning in 1998, Rwanda is expected to repay \$155 million per year to its creditors – mainly the Bretton Woods institutions.

Is it right that survivors of the genocide should be forced to pay for the arms used to commit the crime?

# The Asian Crisis and its International Repercussions

The world's stock markets have been unstable since late October 1997. Those stocks that had generally registered major gains in recent years have dropped in value. No clear tendency can as yet be detected. The representatives of triumphant neo-liberalism – governments, financiers, the heads of the World Bank, IMF and the Bank of International Settlements, and stock market commentators – are putting on a brave face but it is clear that they are worried. Confidence in the future is the watchword, they say.

But where did this crisis come from? Did the IMF forecast it? Who will pay for the damage that has been done?

## CHECKMATE FOR ASIA'S FOUR 'DRAGONS'

In April 1997, a major economic and financial crisis broke out in Southeast Asia. It began in Thailand in February 1997, spreading from July onwards to Malaysia, Indonesia and the Philippines. These four countries had not long before been cited by the IMF, the World Bank and private banks as the models to emulate owing to their high degree of openness to the world market, their low rate of inflation and their high rates of growth. They were Asia's four 'dragons', engaged in a race to catch up with the region's four 'tigers' (South Korea, Taiwan, Hong Kong and Singapore). Today, the very same institutions now criticise these countries for having given the state too strong a role; they accuse the state of having allowed private financial and industrial concerns to accumulate exaggerated levels of debt and to speculate.

In the five years running up to the crisis, the external debt of these countries had more than doubled. The 1997 crisis unleashed a renewed explosion of debt, suddenly making it very difficult for the countries to meet their financial obligations. Taiwan and China are exceptions to the rule, but for how long? Growth in the 'dragon' countries (Thailand, with a population of 60 million; Indonesia with 203 million; the Philippines with 73 million and Malaysia with 20 million) was driven by an inflow of foreign capital, by the importation of goods and machinery and by low salaries. This soon led to the appearance of two negative factors. First, the external debt – largely in the form of short-term loans contracted on the financial markets – grew rapidly; second, the trade deficit continued to rise. Indeed, imports were systematically higher than exports. In other words, the productivity of these countries remained structurally lower than that of the industrialised countries with which they were trading. The four 'dragons' have retained the characteristics of Third World economies and therefore suffer under the effects of unequal trade. The relative price of their exports is lower than the relative price of the goods they must import in order to reach their growth targets and satisfy the consumer demands of the wealthiest sectors of the population. It is only these layers of the population that have the necessary purchasing power to buy high-quality consumer goods. A large sector of the population did not benefit from the fruits of growth, which explains why the gap between rich and poor within the countries in question actually grew in size, in spite of an overall increase in the national income. Now that the crisis has struck, the richest sectors of the population continue to amass riches while the majority of the population – including most in the middle classes – have seen their income plummet. This will only serve to accentuate the characteristic features of an 'underdeveloped' economy.

Thailand was the first country to plunge into crisis, its money being pegged to the dollar (which was not the case for the other three 'dragons'). The Thai bhat therefore kept in step with the dollar, which had strongly risen in value. This made Thai exports much less competitive, provoking capital flight. The three other 'dragons' were dragged down by the Thai collapse.

Thailand is the fifth most indebted Third World country in absolute terms, just behind Brazil (population 170 million), Mexico (population 90 million), China (population 1.2 billion) and South Korea (population 45 million).

## The Global Stock Market Crisis

The crisis was not limited to the four 'dragons'. In October 1997, it hit Hong Kong hard and began to undermine South Korea. It deepened the economic crisis already affecting Japan. By late October and early November, all the world's stock markets were shaken (see Box 7). The big institutional investors – pension and mutual funds, insurance companies and banks – panicked in the face of the monetary and stock market instability (for which they are largely responsible). They deepened the crisis by selling off some of their shares to convert them into liquidity or to buy bonds from governments in the most industrialised countries. These bonds were seen as safe havens, although their yield immediately dropped in response to the flood of money in their direction. Capital flight out of Southeast Asia began in early 1997; the scale of this flight forced the 'dragons' progressively to devalue their currencies relative to the dollar from July onwards. The outward flow of capital eventually affected Hong Kong – the main stock market in the Third World and the sixth biggest in the world. The bourgeoisies of Latin America had hoped to attract this outflow of investment from Asia into long-term investment in Latin America, but this was not to be. On 27 October, the Mexico City, São Paolo and Buenos Aires stock markets – the three main financial centres in Latin America – crashed simultaneously. By December 1997 the Mexico City stock market had recovered, but for how long? The crisis spun out of control; all the world's stock markets plummeted on 27 and 28 of October. As for the four 'dragons' – under the combined effects of the huge devaluation of their currencies, emergency loans from the IMF, World Bank, other financial institutions and some governments – the weight of their external debt has increased dramatically. Now that the two American credit-rating agencies, Moody's and Standard and Poor's, have downgraded the country-risk rating of the 'dragons' and South Korea, these countries have to pay very high short-term interest rates in order to contract loans aimed at paying off past debts.

## The Social Costs in Southeast Asia and the Knock-on Effect in the Industrialised Countries

Beginning in the summer of 1997, the economies of Southeast Asia have seen a significant fall in industrial growth. How long will the

crisis last? It is best to avoid random forecasts. Nevertheless, it looks as if there will be zero and perhaps even negative growth in 1998. The four 'dragon' countries' 350 million inhabitants have seen their purchasing power come tumbling down. According to the World Bank, by early 1998, 2.3 million Indonesians had lost their jobs (*International Herald Tribune*, 12 January 1998). One million Malaysians and 1.7 million Thais were in the same position. We are in the early stages of large-scale social catastrophe.

#### BOX 7 CHRONOLOGY OF THE CRISIS

February 1997: capital flight from Thailand begins

2 July 1997: first devaluation of Thai bhat

August 1997: IMF announces rescue package for Thailand. IMF package accompanied by harsh austerity measures.

Stock market performance: between January and August 1997, stock markets continued to climb in the United States, Europe, Hong Kong and Latin America. Japanese markets stagnated, and in August 1997 markets in the four 'dragons' crashed.

October 1997: stock market crash in Hong Kong and a number of other markets (the term 'crash' is usually used to describe a drop in share values of more than 10 per cent in a single session).

27 October 1997: generalised fall on world stock markets. New York, down 7.2 per cent (554 points down). Trading stopped twice on Wall Street. São Paolo, down 14.9 per cent; Mexico City, down 13.7 per cent; Buenos Aires, down 13.3 per cent; Toronto, down 6.1 per cent; Hong Kong, down 13.7 per cent (or 33.4 per cent in eight days); Tokyo, down 4.3 per cent; London, down 8.4 per cent; Frankfurt, down 11 per cent; Madrid, down 14 per cent; Amsterdam, down 8.7 per cent; Paris, down 9.1 per cent; Brussels, down 1.2 per cent; Manilla, down 6.3 per cent; Seoul, down 6.6 per cent; Taipei, down 6.9 per cent; Sydney, down 7.2 per cent; Shanghai, down 7.2 per cent; Auckland, down 12.5 per cent; Moscow (October 28), down 21.1 per cent.

December 1997: South Korea accepts IMF conditions

15 January 1998: Indonesia accepts IMF conditions

Depreciation of Asian currencies against the dollar between 2 July 1997 and 8 January 1998: Indonesian rupiyah, down 80 per cent; South Korean won, down 96.5 per cent; Thai bhat, down 87.4 per cent; Malaysian ringgit, down 78.5 per cent; Filipino peso, down 70.5 per cent; Singapore dollar, down 21.5 per cent; Japanese yen, down 15.5 per cent; Indian rupee, down 11 per cent.

The slowdown in the industrial growth of the 'dragon' countries will lead to a drop in their imports from the industrialised countries, whose economies will suffer as a result. The effect on each industrialised country will be proportional to the amount of exports they had been sending to Southeast Asia prior to the crisis. The Asian countries affected by the crisis (including South Korea) took in no less than 19 per cent of US exports in 1996. Japan, the US, Holland and Germany will be more seriously affected than France. But since 60 per cent of French and Belgian exports go to Germany, they will both be seriously affected none the less.

### A Failing Grade for the IMF

The IMF had sworn that it would never again be caught off guard by a financial crisis characterised in particular by the massive outflow of capital from a given country. Following the Mexican crisis of 1994, the IMF had established a surveillance system for each country's national economy, aimed at eliminating the possibility of another Mexico-like crisis. But this system proved to be worthless. The IMF's Annual Report of the Board of Directors for the year ending 30 April 1997, was written up during the summer of 1997, while the Southeast Asian crisis was gathering steam, and published in September. It is a dismal read for a number of reasons. The report reveals an IMF steeped in illusion about its own ability to pinpoint the beginnings of a crisis in time. '[We] note that consistent progress has been made, especially concerning the IMF's ability to detect the appearance of financial tensions at an early phase' (IMF Annual Report 1997). The actual course of events soon showed how baseless these complacent comments had been. The IMF did not foresee the major financial crisis that hit the four 'dragons'. Worse, in its *World Economic Outlook*, written during autumn 1997, the IMF did not

foresee the crisis that would hit South Korea, the world's eleventh strongest economy, in November 1997. The IMF's pronouncements recall a well-known French song from the depression era 1930s, 'All is well, Madame la Marquise'. In it, the maid-servant replies to the marquise's question about the state of her castle, 'Your castle is burning to the ground, but all is well.'

IMF president Michel Camdessus constantly changes his explanation for what is happening. He has become a champion of political and diplomatic doublespeak. At a press conference held at IMF headquarters on 18 December 1997, he said that the IMF had underestimated both the danger and scale of the crisis. Yet in Brussels on 21 January 1998 he blamed the crisis on the leaders of the countries affected. He accused them of not having heeded IMF warnings! He added, 'If we had been able to act six months earlier, the crisis in South Korea would never have happened' (*Le Soir*, 22 January 1998). What nonsense!

### **The IMF and the Asian 'Dragons'**

It is worth recalling that beginning in the 1980s both the IMF and the World Bank had pointed to the four 'dragons' as models to be emulated by all Third World countries, and even by those of Eastern Europe. This posture was maintained right up until the outbreak of the crisis.

On the subject of Thailand, the 1997 Annual Report includes a summary of a working meeting held between the IMF and Thai officials in 1996. According to the report, the external debt had risen sharply between 1991 and 1995, going from 39 per cent to 49.5 per cent of GDP. Furthermore, it says, half of this external debt was contracted on a short-term, high-interest basis; and the trade balance was increasingly in the red. The report highlights other reasons for concern. Nevertheless, it draws the following balance sheet: 'The governors enthusiastically praised Thailand's remarkable economic performance and its strict application of sound macroeconomic policies. They noted that financial policy had been tightened in 1995 in response to the increase in inflation and in the current account deficit; and that these measures had begun to bear fruit although they warned the Thai authorities against being complacent' (IMF 1997 Annual Report).

Indonesia also earned IMF kudos. 'The governors congratulated the Indonesian government for their country's economic performance in recent years, in particular for the significant reduction in poverty and improvements in a wide range of social indicators ...' (IMF 1997 Annual Report). Further on, IMF governors praise Indonesia for prioritising 'the free circulation of capital', although just before they highlighted some of the dangers this entailed. 'Massive capital inflow has raised a number of challenges for the government', the report says. The analysis continues with praise for the Indonesian authorities, indicating that they would handle the new challenges with comparative ease. 'One of the ingredients of Indonesia's success has been the flexibility with which the authorities have adapted economic measures to changes in the situation. This will be an essential asset for tackling new challenges' (IMF 1997 Annual Report).

As for Malaysia, the report contains the following passage:

The governors congratulated Malaysian officials for their country's ongoing remarkable economic performance, characterised by robust export-oriented growth, low inflation and noteworthy social progress in the reduction of poverty and improvement of income distribution. Sound macro-economic policies and broad structural reforms have boosted these results. (IMF 1997 Annual Report)

Soon after, once the crisis began, these very same Thai, Indonesian and Malaysian officials became the targets of criticism from the IMF and neo-liberal ideologues. Malaysian Prime Minister Mahathir was a particular source of irritation to the IMF for a number of reasons. From late July 1997 onwards he denounced the criminal role of big speculating financial institutions; he criticised the IMF and refused its assistance; he visited Fidel Castro in September 1997; and his country hosted the G15 Summit in the autumn of 1997, bringing together the main countries of the Third World in a (sadly) failed attempt to put pressure on the governments of the industrialised countries.

As previously stated, one of the main causes for the crisis in the 'dragon' countries was a high growth rate based on a massive inflow of foreign capital and on a level of imports that consistently exceeded the value of exports. This led to an increasing current account deficit,

accentuated by the rise in the value of the dollar in 1996 and 1997. These countries pursued a low-wage and high-interest policy aimed at attracting foreign direct investment and speculative capital. This policy created a distorted domestic market in which only a small wealthy minority enjoyed high levels of consumption, and in which speculative investment exploded in sectors such as real estate. Financial and industrial concerns in the 'dragons' all took on high levels of debt to undertake major development projects and to engage in speculative investment practices. Local banks and brokerage firms made huge loans without requesting adequate guarantees from their debtors. When the vanguard among international and local financial speculators – with George Soros's Quantum Fund in the lead – determined that governments would be unable to defend their currencies, they unleashed their attack, starting with the Thai bhat. The first round of attacks proved to be a success, a wave of panic selling followed; the local capitalists that could were quick to offload their local currencies in exchange for dollars, which they invested in safer markets far away. For this reason, Mahathir's condemnation of international speculators is inadequate. He covers for local capitalists who behaved in exactly the same way, sheltering their capital from turbulence in the region. The Malaysian prime minister seems more interested in finding a scapegoat to redirect the population's anger, and thus to protect the region's homegrown capitalists. Indeed, like his Thai counterparts, he seems to have found another category of scapegoats – the large number of migrant workers both countries have decided to expel.

The crisis has awoken the region's governments to the disadvantages that come with a massive inflow of volatile capital. This inflow feeds a speculative financial bubble and pushes up the value of the local currency (due to the enormous quantity of strong currencies in circulation on the domestic market). An example of the change in thinking in the region came from Cesar Bautista, the Filipino Minister of Commerce and Industry. While not jettisoning his neo-liberal creed, he made revealing statements in his 13 January 1998 interview with the French newspaper *Le Monde*. Asked, 'Do you think that five years ago you should have let the peso fall below a rate of 30 to the dollar as some were suggesting? Could you have averted the crisis by abandoning your policy of maintaining higher interest rates than those of your neighbours?', he replied: 'Our currency was never pegged to the American dollar. We always let the market determine

the exchange rate. The problem was – and the same goes for other countries – that the market was functioning abnormally due to the excessive influx of dollars. When dollars flood into your economy, your currency is probably overvalued.' Further on, Bautista engages in self-criticism. 'We should have applied much stricter measures over the last two years, to control the enormous influx of American money. We could track portfolio investment more closely, we should also encourage these funds to make a longer-term commitment to the country by penalising short-term speculative operations.' But for the moment, the IMF remains hostile to such measures.

### The IMF and the South Korean Crisis

The crisis thundered into South Korea in November 1997. In its October 1997 quarterly bulletin on economic prospects for the coming two years, the IMF makes absolutely no mention whatever of the crisis that would hit the world's eleventh most powerful economy a few days later.

After the fact, the IMF did exactly the same thing as the army of neo-liberal editorialists and economists. Having praised South Korea to the heavens until 1996, it changed its tune overnight. The South Korean system, it now said, was based on too much overlapping between state employees and institutions, financial establishments and industrial houses. These financial and industrial establishments form huge conglomerates – the *chaebols* – that finance political leaders in exchange for continued economic privileges.

The neo-liberals also criticise South Korea for maintaining a highly protectionist arrangement, an overly strong public sector and a social welfare system seen as too favourable for workers.

Is it true that the South Korean government opposed liberalisation? Definitely not. For proof, one need go no further than a report filed by an IMF mission sent to the country in November 1996 and the minutes of the debate between IMF leaders that followed the trip. Here are some excerpts:

1. On the question of the elimination of tariff barriers and other obstacles to imports. 'Since 1994, the authorities have progressively dismantled obstacles to imports and reduced tariffs in accordance with the Uruguay Round agreement. The granting of

import licences has become automatic, except for a small number of items that threaten public health and safety' (IMF 1997).

2. On the question of privatisation. 'Over the last ten years, the authorities have partially implemented two different programmes of privatisation of state-owned companies. The programme adopted in December 1993 set out to privatise 58 of 133 state-owned companies in the 1994–1998 period. By mid-1996, 16 companies had been privatised'.
3. On the liberalisation of capital flows. 'IMF governors were also pleased with the recent liberalisation of capital flows. While some governors backed a progressive approach to reforms in this field, a number of others feel that rapid and wide-ranging liberalisation would be very advantageous at South Korea's current level of economic development.'

The IMF report on South Korea concludes, 'the board of directors was pleased with the broadening of structural reforms, especially as concerns the labour market and privatisation. These reforms should boost productivity gains and ensure the competitiveness of the South Korean economy' (*ibid.*). Finally, from early 1997 onwards, IMF governors backed South Korean government plans to reform the labour code to make it easier to lay off workers.

### **What Were the Causes of the South Korean Crisis?**

South Korea's industrial development is more advanced and began long before that of the four 'dragons'. Some South Korean multinationals had even managed to compete head-to-head with powerful companies from the advanced industrialised countries in a number of sectors (computer semiconductors, automobiles, shipbuilding, industrial goods). South Korea's share of the world market continued to grow until 1996.

The South Korean development model was in many ways the antithesis of the neo-liberal model. It involved a radical agrarian reform in the 1950s, industrialisation fostered and protected by the state, military dictatorship and repression of the trade union movement, followed by significant concessions to labour in the face of powerful working-class mobilisation. After the Japanese, South Korean workers have the highest wages in Asia.

## The Causes of the South Korean Crisis Belong to Three Distinct Categories

First, the country experienced a decline in the terms of trade, between the relative value of its exports and that of its imports. In 1996–97, the volume of South Korean exports rose by 37 per cent but brought in only 5 per cent more revenue. The dollar value of South Korean exports dropped by about 15 per cent in 1996 and 12 per cent in 1997. The weakening of the Japanese yen made Japanese exports more competitive. South Korea was also confronted with competition from China and the four ‘dragons’, whose competitiveness was linked to a low wage policy. Finally, South Korea had carved out a specialised niche for itself in the production and export of semiconductors, and therefore was hit hard by the fall in prices.

Second, South Korea had grown increasingly dependent on the recent and massive inflows of foreign capital in its most volatile form – portfolio investment and short-term loans. In order to compensate for export losses, South Korean firms took out huge short-term loans in expectation of an economic recovery that never came.

Third, South Korean employers failed in their attempt to make workers pay for losses suffered in export markets. They tried to tackle industrial workers (whose wages had risen at an annual rate of 16 per cent between 1987 and 1996), by getting the government to rush through a reform to the labour code in late December 1996, in the absence of the parliamentary opposition. This measure provoked a general strike, which was victorious inasmuch as the workers obtained a two-year moratorium on layoffs.

Under the combined effects of the Southeast Asian crisis, the continued rise in the value of the dollar and depreciation of the yen, the accelerated outflow of volatile capital from the country (which had begun in earnest in the spring of 1997), the eleventh most powerful economy in the world was plunged into a major crisis – placing it at the mercy of the IMF and the US. The Seoul stock market plummeted 67 per cent between 11 August and 17 December 1997; the South Korean currency lost 96.5 per cent of its value against the dollar between 2 July and 8 January 1998.

## IMF-Imposed Structural Adjustment in South Korea, Thailand and Indonesia

A thoroughgoing structural overhaul is underway. A number of financial establishments have been shut down, there have been

extensive layoffs, the central bank has been made independent of the government (making it easier for the IMF to exercise its influence over it), interest rates have skyrocketed (sinking local industry and consumer spending into recession), major investment projects have been abandoned, the big South Korean conglomerates (the *chaebols*) are being dismantled, the South Korean labour code is being reformed to allow for extensive layoffs, and Indonesia has abandoned its ambitions in the aviation and automobile sectors. These countries have been plunged into a deep recession.

Governments have been placed under the supervision of the IMF, the World Bank – and the G7 countries, particularly the US. They must make regular reports to their overseers, who can at any time threaten to stop the flow of loans that the countries need to pay back private creditors. This represents nothing less than a loss of national sovereignty.

The loans provided by the IMF, the World Bank and private banks all include a risk premium tacked on to the market interest rate (except for a small number of the World Bank loans, which target the most vulnerable sectors of the population). These institutions will make huge profits. IMF head Michel Camdessus recognised as much at a press conference given on 18 December 1997. The tens of billions of dollars contracted in loans were immediately used to pay back the banks and other international financial institutions. Every single one of the contributors to the so-called rescue package will be paid back, thanks to the countries' export revenues and savage cuts in public spending. Tax revenues will also go towards paying off the external debt.

Openings for foreign investment (with no limit on the repatriation of profits) will clear the way for American, European and Japanese multinationals to buy up Asian companies at rock-bottom prices. The IMF convinced South Korean officials to allow foreign companies to acquire 100 per cent ownership in South Korean companies. International financial institutions will now be able to return to the region to invest a part of the funds they had previously withdrawn in a panic. George Soros acknowledged having withdrawn his funds from the region in 1997, yet he was welcomed back to the country like a visiting dignitary by the new South Korean president, Kim Dae-jung, who promised he could pursue his lucrative interests in the country. The new president announced that foreign investors were

welcome to buy up the 71 institutions that make up the country's domestic financial sector.

### Hong Kong and China

The crisis in the region has also affected Hong Kong and reduced the influx of capital into China. Capital flows into China had already dropped by 50 per cent during the first half of 1997 compared to the previous year. In 1996, China had attracted more than half of total foreign direct investment (FDI) destined to East and Southeast Asia. It took in \$42 billion, the four 'dragons' took in \$17 billion, while Singapore took in \$9 billion that year. (For purposes of comparison, all of Latin America took in only \$39 billion in FDI that year. Worse, India attracted only \$2.5 billion, the same as Hong Kong.) It is very likely that the drop in FDI China registered in 1997 will continue in 1998.

If China finds itself faced with a dramatic fall in the inflow of foreign capital, it will have to reduce its imports. This could have a depressive effect on the world economy.

In its desire to keep its exports competitive with those from the 'dragon' countries, whose currencies have significantly dropped in value, China will be tempted to devalue its currency. It might desist from doing so in order, on the one hand, to avoid sharpening its trade disputes with the US, which consistently registers a strong trade deficit with China and accuses it of unfair trading practices. On the other hand, such a devaluation would be seen as an admission of weakness by global markets, and would tarnish the country's image in the eyes of foreign investors.

Furthermore, before the outbreak of the crisis, Chinese officials had adopted a programme of large-scale privatisation for 1998. Will they stick to this plan in a context where all their competitors are privatising, thereby driving down the price (and therefore the privatisation revenues) of the companies for sale?

Finally, China's growth rate has begun to weaken.

### Recessionary Effects Throughout the Third World?

The first Third World countries to be affected by the crisis will be those whose main revenues come from the sale of raw materials. Prices for these raw materials have dropped considerably, since the countries of East and Southeast Asia are major importers of these products.

Those Third World countries who depend heavily on exports of a few raw materials will be hit harder by the Asian crisis than will the most industrialised countries. Take the example of copper. Asian countries are major copper importers. What will be the impact of the drop in copper prices on Chile, which receives much of its revenue from copper exports? The negative effects could be particularly dramatic given that Chile has recently invested in an increase in its copper production capacity.

Second, countries like Mexico and Brazil hope to profit from the Asian crisis by being the new Shangri-La for global investment flows. Their reasoning is simple. Funds fleeing Asia have gone in various directions. They have gone into bonds issued by the governments of advanced industrialised countries in order to finance payment of their public debts. They have gone into short-term loans with interest rates that are particularly high due to 'country-risk' premiums. In this second category, large quantities of investment flooded into Mexico from Asia, primarily in 28-day government paper with an option to renew. Suffice it to say that this is highly volatile money. How long will it stay in Mexico? Who can prevent it from suddenly picking up and leaving – much to the chagrin of the Mexican authorities – if greener pastures appear elsewhere? Finally, investment fleeing Asia has inundated emerging-market stock markets, primarily the Mexico City stock market. But for how long?

In any event, such a hefty influx of capital leads to an overvaluation of the recipient country's currency, thereby cutting its competitive edge. If exports drop, the country can become less attractive, leading to an enormous outflow of capital, which causes a dramatic decline in the value of its currency. Is this not one of the vicious circles of financial globalisation?

A third point should be taken into consideration. Asian countries' exports have become more competitive following the devaluation of their currencies. Will this not create problems for the exports of other Third World countries? Indeed, will these other countries not see their markets 'invaded' by Asian products competing with domestic merchandise?

There is a fourth point. Myanmar (Burma), Vietnam, Bangladesh and other countries in the region depend on the remittances regularly sent by migrant workers in the 'dragon' countries. Yet the authorities in the 'dragons' are planning a massive expulsion of these immigrants. What consequences await the poorest Asian countries?

And in the 'dragon' countries themselves? Are we headed for a programmed escalation of 'inter-ethnic' conflicts?

### **India and Pakistan Spared Thanks to Protectionism**

In its 1997 report, the IMF celebrated globalisation. 'The governors agreed that globalisation has contributed to global prosperity' (1997 Annual Report). It once again warned those governments that might seek to control capital flows and partially protect their economies. 'The threat of marginalisation increasingly hangs over those who resist globalisation' (*ibid.*).

This assertion has also been refuted by real life. India and Pakistan, the two giants of South Asia, have not yet been seriously affected by the financial storm in Southeast Asia. Pakistan and India are experiencing serious economic problems (Pakistan devotes 40 per cent of public spending to servicing its external debt), but the relative slowness with which they have embraced globalisation has protected them from the speculative domino effect. Far from 'marginalising' them, the maintenance of protective barriers and controls on capital flows, as well as the slow pace of privatisation, have shielded them from the constant attempts at destabilisation that they must face.

### **Japan and the United States**

The Japanese crisis has been so serious that the country's government and capitalists have been unable to implement measures that might stabilise the East and Southeast Asian situation. Rather, the US – with the IMF in tow – have taken control of the situation. When demanding that Japan clean up its financial house, the IMF has had a difficult time concealing a certain arrogance towards the Japanese authorities (for example, Michel Camdessus's press conference of 18 December 1997). Thanks to a strong dollar, US multinationals are better placed than the Japanese to buy up companies in a region hitherto dominated by Japanese capital. US multinationals are also looking to boost their hitherto weak presence in Japan.

Japanese capitalists have one way of putting pressure on the American authorities – they hold one-third of all US Treasury Bonds. If they were to decide to sell a part of these holdings to provide some liquidity for their financial system and to buy up companies in the

region, this would create serious problems for the Americans. Indeed, it would increase global financial and monetary instability. It is unlikely that Japanese capitalists will want to bear responsibility for such an outcome.

Lastly, the US has a strong military presence in the region (particularly in Japan and South Korea), and they have shown no intention of changing this state of affairs.

### WHO WILL PAY FOR THE DAMAGE DONE?

A cynical editorial in the 5 January 1998 edition of the *Financial Times* claimed, 'Profits are for private owners while losses, when sufficiently large, are covered by the taxpayers.' International bankers are asking the South Korean authorities (and those in the 'dragons') to nationalise the astronomical short-term debts contracted by private South Korean firms. This is exactly what happened during the 1980s Latin American debt crisis. Adopting the same posture as they did during the Latin American crisis, private bankers are threatening to cut off all loans to Asia – to South Korean capitalists in this case – if the South Korean government does not step in for private companies through a public bond issue aimed at paying off their debts. The *Financial Times* editorial continues,

Creditors who granted high-risk loans will be saved – first by the IMF, then by South Korean taxpayers – for the simple reason that they and their debtors are too big to be allowed to go bankrupt. To add insult to injury, some creditors are going to make a fortune.

No further comment is needed, except perhaps to point out that this process will accelerate the tendency towards a reliance on financial markets for credit. Until now, Asians had preferred to contract direct short-term loans, now they will have to issue bonds on international financial markets.

### A DOUBLE STANDARD ON BAIL-OUTS

In their talks with Asian governments that approached the IMF for assistance, the IMF and American officials conditioned their aid on the shutting down of a large number of badly managed financial

institutions. Need we recall the way in which, during the 1980s, American officials organised the Savings and Loans bail-out to the tune of some \$200 billion doled out by the federal government? Does IMF head Michel Camdessus, from France, recall the \$20 billion bail-out of Crédit Lyonnais? In Asia, however, financial institutions in the same position are being forced into bankruptcy – at which point banks from the wealthy industrialised countries will be able to snap them up for a song.

## ARMS SALES

The official line of the IMF is that Asian countries engulfed in the crisis have to undertake drastic cuts in state budgets, especially in the area of arms spending. As is often the case, reality is very different from the IMF's hypocritical posturing. South Korea and the four 'dragons' are the main customers of American arms dealers. In the 14 January 1998 edition of the *International Herald Tribune*, Steven Lee Myers of the *New York Times* writes about how US Secretary of Defense William Cohen 'is seeking ways to maintain the military orders' placed by the countries in crisis. In January 1998, close on the heels of Michel Camdessus and US Treasury representative (and former World Bank head) Larry Summers – making their tour of Asian countries subjected to IMF austerity conditions – was another delegation following exactly the same itinerary. It was led by William Cohen, accompanied by Todd Crawford from the US Treasury. South Korea wants to cancel its order for AWAC planes, and Thailand wants to cancel its order for eight F/A 18 fighter jets. The US, however, wants Malaysia, Thailand, South Korea and Indonesia to maintain their orders, and has offered a special source of financing to this end.

## CONTRADICTORY REACTIONS IN THE UNITED STATES

### **A Warning from Henry Kissinger**

In early January 1998, the former US Secretary of State Henry Kissinger threw a spanner in the works of the US delegation led by Larry Summers just as it was about to begin its diplomatic rounds in Asia. In a piece in the 12 January 1998 edition of the *International*

*Herald Tribune*, Kissinger said that the US was behaving as though it intended to recolonise Asia. He warned against an overly arrogant and aggressive approach, which could provoke an anti-American backlash in the region. He wrote, ‘We must ensure that economic realities do not provoke a wave of nationalism and perhaps anti-Americanism, which would mean that the cure is worse than the illness’; adding: ‘We should avoid using this opportunity to recolonise Korea.’ Kissinger may well be on to something.

### **Other American Points of View**

In the 12 January 1998 edition of the *International Herald Tribune*, David Hitchcock, a former US diplomat with considerable experience in East Asia, wrote: ‘For the moment, Asians seem to be blaming their own leaders, bankers and businessmen. But if harsh economic measures lead to further bankruptcies and layoffs, their anger might cross the Pacific.’

Finally, in the 16 January 1998 edition of the *International Herald Tribune*, the number two Democrat in the US House of Representatives, David Bonior, criticised the IMF rescue package. ‘We must provide aid. But this aid should not be a rescue package for bankers, speculators and repressive dictators [sic!]. We cannot support a rescue package that strangles working people, ignores the causes of instability and then asks the American taxpayer to foot the bill.’ He said that the US contribution to the IMF package should go towards expanding democratic rights, increasing salaries and improving Asian living conditions.

In all respects, the US has strengthened its position as a result of the crisis. The various aforementioned warnings will probably have little impact on US policy and on that of the IMF, which the US controls. The US government and American businesspeople clearly feel they have more to gain than to lose by taking their economic and political offensive as far as possible. They want to expand their presence qualitatively in the Asia-Pacific region, at the expense of Japanese imperialism and of those countries subject to IMF conditions – primarily South Korea and Indonesia. Countries such as the Philippines, Thailand, even Vietnam, are already under US control to all intents and purposes.

## THE IMF BAILS OUT THE SPECULATORS AND STRENGTHENS THE AMERICAN HAND

On 22 January 1998 Stanley Fischer, an American citizen and number two at the IMF, gave a report to US bankers on the IMF response to the crisis. He said there were two possible responses.

When the crisis hit, we could have let it deepen and given a lesson to international lenders. The alternative is to try to moderate the effects of the crisis on a regional and global level in a way that spreads the burden between borrowers and lenders. However, we cannot rule out undesirable side-effects. This latter approach makes more sense. The general interest, and therefore the interest of the United States, is reliant upon a strong Asia that can import and export in a way that drives world growth. ('The Asian Crisis: A View from the IMF', IMF press release, 22 January 1998)

Although a little more subtle than is usually the case, the statement clearly reveals how the IMF has once again played the role of protector of the interests of the big international financiers. The IMF refused to teach them a well-deserved lesson. Furthermore, Fischer leaves no doubt that, in the IMF's view, what is good for the United States is good for the world.

## SOME FINAL QUESTIONS

1. The Asian model, often described as the Asian 'miracle', no longer exists. Michel Camdessus and others have declared this publicly. Did this model – in particular that of the four 'dragons' – ever create the conditions for long-term human development in the countries of the periphery? Or rather, did it not reproduce in its own way the characteristics of dependent countries, dominated by the capitalist centre? If the Asian model is 'out of fashion', to quote Michel Camdessus, what do the high priests of the IMF and World Bank, and the plethora of neo-liberal development experts, have in mind as a replacement? What is the way forward for poor countries now?

2. As far as the IMF, the World Bank and 99 per cent of the world's governments are concerned, the worst thing to do would be to limit the free flow of capital. On the contrary, it should be freed up even

more. French president Jacques Chirac, an expert in the art of self-contradiction, has also said as much. Passing through Malaysia in November 1997, he met with Prime Minister Mahathir and declared, 'Excessive speculation must be controlled.' It seems logical that speculation can only be controlled by placing strict limits on capital flows, but Chirac had a response at the ready. 'I am naturally not in favour of exchange controls or limits on capital movements. The free circulation of capital is now a rule everyone accepts' (*Le Monde*, 18 November 1997). Yet, once again in the history of the last two centuries, we have clear proof that the free circulation of capital is a powerful catalyst for crises. Even if the IMF, World Bank, Bank for International Settlements, the US Federal Reserve, and the German Bundesbank were to unite their efforts, they would be unable to discipline capital movements – unless, of course, new restrictive legislation was put in place. But these institutions are opposed to such measures. The IMF and those that run it (the G7 countries, multinational corporations) have plainly shown that, whatever they may say, they are the cause of this and other crises, and not the cure. IMF head Camdessus even had to admit this, albeit discreetly, during his negotiations with the Indonesian president Suharto. It was the closing down of 16 Indonesian banks decreed by the IMF in November 1997, he agreed, that had provoked a panic and deepened the crisis. He was obliged to offer an apology to the old dictator before he would sign the agreement with the IMF on 15 January 1998. If indeed the Asian model is 'out of fashion', is the free-circulation-of-capital model not out of fashion, too?

3. If inter-ethnic troubles erupt in Indonesia, the Philippines, Malaysia and Thailand, will world economic and political leaders continue to refuse to see the link with the current economic crisis? Will these events merely be chalked up as 'undesirable side-effects'?

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## Towards an Alternative

We can now turn our attention to the task of examining and debating possible alternatives. Some of the proposals in this final part of the book actually stem from ideas put forward by social movements in various countries. They originate either in the deliberations of the social movements themselves or from the work of different researchers and international organisations. This is not an all-inclusive programme, nor should it be seen as a proposal to accept or reject *en bloc*. They are suggestions, alternative avenues for debate and reflection. At best, they are a collection of necessary-but-insufficient conditions for charting a path forward. The angle of attack is in keeping with the analysis provided thus far. The issues addressed are thus: the burden of the Third World debt for the peoples of the South; North-South relations; 'power'; financial deregulation; the evolution of revenue distribution in favour of the holders of capital; and unemployment. This section of the book is addressed to those directly involved in the struggle for change.

### PRIORITY NEEDS AS THE STARTING POINT

#### **The Third World**

According to official documents from UNICEF, the UNDP and the World Bank (UNDP, 1994), about \$90 billion over ten years would be enough to:

- Provide basic medical care for all, vaccinate all children, eliminate extreme malnutrition and reduce non-life-

threatening forms of malnutrition by half, cut in half the mortality rate for children under the age of 5.

Each year, 10 million children die from easily curable diseases or hunger before the age of 5.

*Cost:* \$5–7 billion annually for ten years.

- Guarantee universal access to drinking water.  
1.3 billion people do not have access to safe water supplies.  
*Cost:* \$10–15 billion over ten years.
- Reduce adult illiteracy by half, guarantee universal primary education, bring female illiteracy down to the rate found among men.  
*Cost:* \$5–6 billion over ten years.

## ON A WORLD SCALE

### **Guaranteed Employment for All**

In the North, the debate over the reduction of working time is in full swing. If carried out in a radical and generalised fashion, with no loss in wages, such a reduction can be a powerful measure for providing employment for all.

An explicit objective must be that of abolishing unemployment, which is the main mechanism for social discrimination of the worst sort. All the debates about the end of waged labour, and the wonders of free time and a well-rounded lifestyle, are no obstacle to this objective. Indeed, these matters cannot be properly addressed as long as so many are excluded from the terms of the debate. This is why a generalised reduction of working time is pivotal for finding an egalitarian solution to the social crisis. (Husson, 1996)

This kind of project raises the need for workers' control to ensure that such measures are applied in full and that the pace and organisation of work are not changed to the detriment of the workforce. This means implementing a universal ban on overtime and work speed-up, and other restrictive measures.

In the South and East, the reduction of working time is also a priority. Aside from making a step in the direction of social justice,

this measure would also mean giving a boost to the flagging domestic market.

### **Guaranteed Access to Land**

'Land to the tiller' is as relevant a demand as ever. For much of the Third World, land is the key question for ensuring sustainable and socially just development. On the eve of the twenty-first century, guaranteeing individual or collective access to land and the means to put it to good use (low-interest loans, infrastructure, transport and communications) remains a central goal. Significant agrarian reform is essential in a number of countries. To take just two highly populated countries, India and Brazil, tens of millions of landless peasants have a stake in such reform. Providing the ways and means for working the land to those who want to do so, is also a way to stem the rural exodus to the sprawling urban monsters of the Third World.

This is also a way to slow the increase in the size of the industrial reserve army of labour. This in turn would reduce downward pressure on industrial salaries in the countries concerned, and indeed on an international level. The matter of access to land also continues to be relevant in a number of countries of the North.

### **Women's Liberation**

Women are the first victims of austerity policies, in both the South and North. Enduring oppression in patriarchal society, women are also directly hit by attacks on job security, wage levels and social programmes. Such attacks further restrict their participation in economic, social and political life. To ignore the major contribution of women's work, however, would mean scuttling the very idea of development. The UNDP's 1995 Report estimates at \$16,000 billion (\$16 trillion) the value of human activity not accounted for in the current wage system. This is equivalent to just under 70 per cent of annual world production, officially calculated at \$23,000 billion.

Of these \$16,000 billion, \$11,000 billion correspond to the 'invisible' contribution of women. One major objective is acknowledging this contribution and, above all, ensuring that it is reflected in the way social power is shared between men and women. Throughout the nineteenth and twentieth centuries in the industrialised countries, it was only after fierce struggles for social rights – in

which women played a central role – that women began to reduce the gap that prevented them from enjoying full equality with men. Now that the World Bank itself is cynically promoting women as capitalist trailblazers, it is crucial that women in the North and South fight for their emancipation based on an agenda that they themselves decide.

### **Who can Implement the Measures Needed to Fulfil these Priority Objectives?**

Can the Bretton Woods institutions do so? The G7? The financial markets? The multinationals?

Is it not risky to rely on them? Would it not be wiser to look towards those ‘from below’, towards the vast array of social movements in the North, South and East that are putting up resistance to the decline in living conditions for the overwhelming majority of the world’s population? Should we not also turn to political institutions (parliament, government, and so on) and those holding office to demand that they apply policies that make a radical break with neo-liberalism?

This raises the question of political power. How is it wielded? How and by whom is it controlled? What choices are made? How? Based on what interests? What institutions are needed to apply which policy?

Should the relevant authorities not apply restrictive measures against the powerful few that have led humankind into a downward spiral for living conditions (including environmental conditions) and democratic rights?

Why do politicians renege on their responsibilities to their voters and more or less actively give themselves over to the imperatives of profit maximisation?

François Chesnais hits the nail on the head when he writes:

It is difficult to see how humanity will be able to avoid measures involving the expropriation of capital. New methods for doing so will have to be invented, keeping in mind all the lessons of the twentieth century. It may well be that we have once again underestimated both the flexibility of the current system of domination and the talent of those who run it. As far as a few basic objectives are concerned, events may indeed prove otherwise but it seems unlikely that the G7 governments will soon re-establish their

control over financial markets and tightly regulate them. Or that they will cancel the Third and Fourth World debt. Or that a significant majority of companies in OECD countries will agree – thanks to the mere intellectual persuasiveness of the measure – to reduce the length of the working week to 35 or 30 hours. As a result, this book aims at contributing to the debate among those ‘from below’ and all those who identify with them. (Chesnais, 1994)

As for the IMF and the World Bank, can these institutions be reformed? There is reasonable cause for doubt. Should they not instead be replaced by other bodies established to regulate capital transfers? By other bodies established to provide low interest loans that are not linked to monetarist, neo-liberal conditionalities – and that are instead aimed at restoring to the countries of the periphery a part of what was stolen from them? Should humankind not create international institutions with which the peoples of the world truly identify? Institutions in which national delegates would debate the major questions facing the world in full public view (with radio and TV coverage)? Institutions in which the GNP and military might of a handful of countries – or one country alone – would not be the deciding factor?

At the very least, those interested in seeing immediate improvements must debate what intermediate measures could be taken right away to lessen the burden of the heavily indebted poor countries (HIPCs). Two specific proposals follow.

#### IMMEDIATE MEASURES CONCERNING THE DEBT OF THE POOREST COUNTRIES

The value of the IMF's gold reserves is estimated to be at least \$40 billion. Proceeds from the sale of 10 per cent of these reserves would be enough to cancel the debt to the IMF of the poorest countries, most of which are in sub-Saharan Africa. The IMF's statutes should be amended to ‘authorise’ it to write off debts; this would have an immediate effect on its loans to the HIPCs.

In addition, the World Bank has reserves totalling more than \$14 billion. These reserves have grown considerably over the last ten years, since profits made on Third World debt repayment exceed new loan disbursements. By spending 35 per cent of these reserves, the World Bank could wipe out the debt owed to it by the poorest

countries. These reserves account for only 16 per cent of outstanding loans. The World Bank would still have \$9 billion in reserves. Such a measure would not disrupt the Bank's operations. The World Bank's statutes should be amended to allow it to write off debts; the total cancellation of the debt of the poorest countries could immediately improve the lot of some 300 million people.

As for private banks, since 1982 they have managed to restructure their portfolios. On average, Third World debt accounts for less than 5 per cent of their outstanding loans. These banks have taken in more than was their due thanks to interest on arrears. They have also made provisions for bad loans; in most countries of the North, they received tax write-offs for these provisions. It seems only natural that they should now write off the remaining outstanding loans. A similar approach should be adopted by other financial institutions that have outstanding loans to Third World countries.

## FINANCING SOCIAL NEEDS WORLDWIDE

### **The Third World**

#### *The Cancellation of the Debt*

The Third World debt totalled \$1,940 billion at the end of 1995 (OECD, 1996). Although hair-raising at first sight, this figure accounts for only 10 per cent of total worldwide debt. It should also be kept in mind that we are dealing with debt contracted by countries representing 85 per cent of the world's population! The industrialised North, with only 15 per cent of the world's population, is much deeper in debt than the Third World.

As for sub-Saharan Africa, things are even more clear-cut. Its debt accounts for only 1 per cent of worldwide dollar and hard currency-denominated debt, while its population (590 million people) represents more than 10 per cent of the world's population. These countries shoulder the greatest burden in terms of human suffering in order to meet their debt payments. Debt-servicing costs sub-Saharan Africa more than four times the total amount allotted for health and education budgets.

Cancelling these countries' debt, especially in the case of sub-Saharan Africa, would not disrupt the world economy in any way. Refusing to cancel the debt, however, is akin to refusing assistance to an entire population in mortal danger.

In general, the Third World debt should be totally and unconditionally cancelled. This debt has already been paid back in many different ways.

Jean-Claude Willame has raised an interesting question that tackles the problem from a political and moral standpoint. ‘Is this not in many ways an “odious” debt?’ He reminds us of a principle of international law defined in the 1920s:

If a despotic regime borrows money, not in accordance with the needs and interests of the country but in order to strengthen its hand and put down resistance from its people, the debt is odious for the whole of the said country’s population. Such a debt is not binding on the nation; it is a debt owed by a regime, a personal debt owed by those that took it on. As a result, such a debt disappears along with the regime to whom the money was loaned. (Willame, 1986)

### **The Expropriation of the Foreign Assets of Dictators**

Turning the clock back to zero is one thing. Ensuring that developing countries have the means to leave their problems behind them, quite another.

Five, six, seven billion dollars, the equivalent of the country’s external debt. During the National Conference, there was a lot of heated debate in Kinshasa and any number of guesses as to the size of the president’s fortune. Everyone quoted the World Bank estimate that the assets of Zairian citizens abroad totalled more than 10 billion dollars, while the country’s foreign debt was less than nine billion dollars. (Braeckman, 1992)

Such figures are well known and must also be taken into account when determining who is responsible for what. The colossal fortunes of Mobutu and other dictators were built through outright theft from the people of their countries. Confiscating these fortunes held abroad – mostly in the countries of the North with the complicity of the banks and even some governments – goes hand-in-hand with cancelling these countries’ debts. Indeed, there can be no question of letting dictators off scot-free. Tough measures must be implemented to freeze and expropriate their assets, to eliminate in one fell swoop their

credibility, their power and their ability to strike back. The foreign assets of dictatorial and corrupt regimes must be returned to the people of the country in question, in the form of national development funds democratically controlled by grassroots organisations. In 1997, the question was squarely posed after the fall of the Mobutu regime. Would Mobutu's entourage live abroad comfortably from a fortune built on theft, embezzlement and murder? If Mobutu's assets were frozen and expropriated, to whom would they go? To lenders in the North, with the IMF and World Bank first in line? Or to the Congolese people?

### **Nationalisation/Socialisation of the Domestic Assets of Dictatorial Regimes**

Debt cancellation turns the clock back to zero. The expropriation of ill-gotten gains – dictators' (and their entourage's) holdings abroad – would provide the ideal basis for a development fund. To this fund should be added the wealth accumulated by these predatory regimes within their own borders. A proper register of these holdings must be established. The regime's physical wealth (not just financial) should also be placed at the disposal of the development fund. This fund is essential for undertaking constructive projects aimed at satisfying the real needs of the population, and for setting up a host of social and environmental programmes.

### **Making Fraudulent Capitalists Pay their Fair Share**

Holders of capital from the South hold large sums of money in foreign accounts. They have enriched themselves on the backs of their people, through out-and-out theft and/or through organised capital flight. A proper register of domestic and foreign-held wealth must be established. This means that officials in each country, under the pressure of the social movements, must take legal steps to demand that banking secrecy be lifted at both national and international levels.

These same officials must determine how much wealth is involved and who controls it. To do so, they can also send commissions of enquiry to private foreign banks. With this information in hand, governments can establish what tax penalty should be imposed to ensure that state coffers receive all taxes due.

Since those with assets abroad also hold domestic assets, their domestic wealth can be frozen as long as the tax penalty is not paid. If the penalty is never paid, a part of the person's domestic assets can be confiscated and transferred into the public domain.

Similarly, in order to calculate special wealth taxes (not to be confused with tax penalties) foreign assets have to be taken into account.

### **A Redistributive Monetary Reform**

A redistribution of wealth can also be achieved by means of appropriate monetary reforms. Without going into too much detail, one model is the kind of monetary reform carried out after the Second World War by the Belgian government – or, on the other side of the planet and in more recent times, by the Nicaraguan government in 1985. These reforms sought to tax those who, in particular, had accumulated wealth through speculative operations. Such a model is relevant in countries such as Congo-Kinshasa (former-Zaire) that have to be rebuilt following the overthrow of thoroughly corrupt dictatorships. In the case of Congo-Kinshasa, however, the IMF and the World Bank, intent on dictating their own conditions to the new government, are strongly opposed to such a reform. As for the government of Laurent Désiré Kabila itself, it has decided to honour the debts taken on by the Mobutu dictatorship. There is good reason, therefore, to doubt its willingness to undertake a redistributive monetary reform.

### **On a World Scale**

#### *The Wealth Tax Proposed by UNCTAD*

In its 1995 annual report, the United Nations Conference on Trade and Development (UNCTAD) proposes that a one-off non-renewable wealth tax should be levied to reduce budget deficits.

Wealth taxes are levies on the estates of holders of capital; they can be imposed the world over.

#### *Global Finance: The Tobin Proposal for a Tax on International Transactions*

James Tobin – former adviser to John F. Kennedy, Keynesian economist and 1981 Nobel Prize winner for economics – has shown

that every day more than 90 per cent of international financial transactions are purely speculative (and therefore non-productive) operations. According to the Bank of International Settlements (BIS), in 1995 these transactions totalled \$1,400 billion every day. It is calculated that a 0.5 per cent tax on such transactions would bring in \$1,800 billion in its first year. This measure of basic social justice would have such a dissuasive effect on speculation that the windfall would drop off dramatically after the first year. But the exercise reveals that it is indeed possible to acquire badly needed funds. Such a measure would also shore up the autonomy of national monetary policies.

Tobin calls for a proportional tax, imposed on all international currency transactions. The tax would apply at both the time of sale and the time of purchase, whatever the purpose of the operation (commercial or financial). Initially, the tax was meant only for up-front transactions. However, since there would be too many ways to get round such a tax, it is clear that the tax would also have to apply to other types of transactions – whether up-front, futures, options, currency swaps or other types of exchange transactions.

The tax would be levied at one rate the world over, to avoid the transfer of speculative activities to competing marketplaces and countries. The different national governments would collect the tax for all operations carried out within their territory, whatever the currency used.

The tax would curb speculation because the total tax collected is inversely proportional to the length of time the asset is held. The shorter an investor's position, the more quickly the total tax collected increases automatically. For example, a 0.5 per cent tax levied on a two-day-long operation produces the equivalent of a 517 per cent annual tax. For a seven-day-long operation, an annual equivalent of 68 per cent. For a month-long operation, 13 per cent. Three months, four per cent. Three years, 0.3 per cent. *Ipso facto*, a surtax on purely speculative transactions.

## OTHER PRIORITIES AND SUBJECTS FOR DEBATE

### **The Ecological Dimension**

Criticisms of World Bank and IMF activities have highlighted the ecological disasters these institutions have helped unleash on both a local and global level. Any serious alternative must keep in mind the environmental dimension. We are told that the only kind of growth

that matters is increased consumption and/or production. An ecologically sustainable model, however, has to make a clear distinction between an increase in market consumption and genuine improvement in the quality of life. Following the Rio Conference in 1992, the World Bank was put in charge of managing the Global Environment Facility (GEF). The negative consequences of this perverse decision were immediately apparent. No real progress has been made towards meeting the objectives set by the Rio Conference. The summer 1997 New York evaluation meeting served to reveal the huge obstacles that have been created in this respect, especially by the US government.

### **Intellectual Property Rights**

The protection of intellectual property rights – in particular, those of Third World peasants – is another objective to be pursued as part of any alternative policy agenda. Over the centuries, Third World peasants have been the ones to produce (by process of selection) the very wealth of the soil that multinationals are now stealing from them (Shiva, 1994). As though it were not enough for big agrobusiness firms to make off with the genetic maps of these agricultural organisms, they also patent them and demand royalties be paid in exchange for use.

### **High Value-Added Production in the South**

As for other kinds of production – high value-added – Third World countries should be free to manufacture the whole range of such goods. The approach of the new World Trade Organisation (WTO) works against this freedom. In the face of pressure from the US, for example, it has put up a number of obstacles to the development of the pharmaceutical industry (in India and Colombia, for example) and the computer hardware industry (in Brazil).

### **Social Clauses. Yes, but Which Ones and How Should They be Implemented? Might They Become a Pretext for Protectionism in the North against the South?**

On the question of trade, a major debate is currently underway on the desirability of social clauses. Do the proposals that frequently arise

during these debates in the North not carry the risk of heightening the North's protectionism? The question is important. If the answer is yes, it would mean that social clauses produce the opposite effect of what is desired by those who see such clauses as a way to improve the lot of super-exploited workers (who are often child labourers). There is not enough space to go into all the different arguments. Above all, there has to be an honest debate between the social movements in the North and South (Horman, 1996 and 1997). A key point in this debate would be the indirect control over production wielded by the big marketing and distribution firms and the big network companies (such as Nike, Reebok, Adidas and Benetton). These multinationals have found a perfect way to sidestep their legal obligations in the area of labour rights and working conditions (Petrella, 1995).

### **Protectionism in the South, Partial De-Linking and South–South Trade**

It is quite natural that the countries of the periphery should want to satisfy the priority needs of their citizens and, to this end, pursue a policy of strong economic growth (especially in industry) and protect themselves from the world market – from the North in particular. The overwhelming majority of modern nations have applied strict protectionist measures at key moments in their history. They have done so to lay the groundwork for and accelerate economic growth. A few examples are Britain, the US, Japan and, until early 1998, South Korea. Partial de-linking from the world market is, therefore, entirely legitimate. In the face of the breakneck speed with which international deregulation has taken place over the last 20 years, debate on this question has been put on the backburner. It must return to centre-stage.

Trade and complementarity also have to be developed between the countries of the South themselves. Put simply, these countries must seek to organise forms of coexistence between their differentiated zones in such a way as to avoid marginalisation and outright exclusion. This means setting up a system of 'gateways and sluices' – in short, regulations or a form of protectionism – so that small peasants in the South are not forced overnight into stiff competition with ultra-competitive agrobusiness multinationals in the North (who are usually subsidised to boot). This protectionism must be pursued as a method for organising the different zones of the world

economy. The goal is not autarchy but regulation – to stabilise exchange rates, to ensure trade contracts over long periods of time, to guarantee prices, to de-link interest rates from the going market rate, and so on.

### **The Arms Trade**

It is pure hypocrisy to claim that cancelling the Third World debt would be catastrophic for the world economy. It is a way to obscure the need for lasting solutions that necessarily involve a challenge to wealth and privilege. Such lasting solutions do indeed exist, this book has made recommendations in this regard. A large body of literature has already made the case for another such recommendation: the need for a drastic reduction in the arms trade.

The overwhelming majority of arms are manufactured in the industrialised countries of the North. Through generous export credits, the countries of the North press Third World countries to buy arms – whatever their hypocritical pronouncements to the contrary might suggest. The US, for example, is currently making a pitch to the countries of Latin America to modernise their military hardware, especially their air forces. A major reduction in arms spending and steps towards total disarmament would produce a huge peace dividend to be shared out in everyone's benefit. Efforts aimed at finding the funds for genuine development cannot overlook demands for total disarmament and the reconversion of war industries.

### **Indispensable Complementary Measures**

If they are to produce the desired results, the core solutions put forward thus far must be accompanied by a series of further measures.

These are:

- the establishment of authentically democratic governments. This means free elections, the freedom of assembly and of expression, the right to demonstrate and strike; respect for and promotion of the whole array of cultural expression present within a country's borders;
- the restoration of full political and economic sovereignty;

- the end of 'export-only' policies and a return to food security based on the development of a strong agricultural sector;
- the increase in government social spending;
- the development of the redistributive role of the state through a system of progressive taxation;
- the establishment of vast public works programmes serving the interests of social justice and the environment. Examples are urban development, renovation of existing housing, rail-based public transport, large-scale irrigation wells, to name a few. Such programmes need considerable labour, which should be hired with decent contracts that respect national and international conventions on workers' rights.
- the launching of literacy, vaccination and basic healthcare campaigns, such as the kind that produced extraordinary results in Nicaragua between 1980 and 1983 and in Cuba during the first phase of the Revolution.

### **International Measures**

- The modification of the terms of trade; an increase in the price of products exported by the Third World to the world market (which does not mean that consumers in the North will automatically pay higher prices); refusal to uphold the GATT/WTO agreements; rejection of the Multilateral Agreement on Investment (MAI);
- the planned transfer of the wealth of the countries of the North towards the countries of the South, to compensate for the age-old exploitation to which the peoples of the South have been subjected.

These two latter measures go hand-in-hand with the cancellation of the Third World debt, the global implementation of a tax on international financial transactions and a drastic reduction in the manufacture of and trade in arms. These measures can only be carried forward by a grand intercontinental movement. They are beyond the reach of the political institutions of one or even a number of isolated countries.

## Globalising Resistance

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THOSE WHO SAY GLOBALISATION IS UNAVOIDABLE SHOULD REALISE THAT THEY CAN BE BYPASSED OR OVERTHROWN

Neo-liberal thought nurtures the idea of inevitability. The system that exists must exist because it exists. Globalisation in its current form cannot be avoided, everyone must fall into line.

This is a recipe for mysticism and fatalism. Any serious study of history reveals that nothing is ‘irreversible’. Take finance, for example. At the beginning of the twentieth century, the free flow of capital made possible by the gold standard, and free trade guaranteed by treaties on trade and investment, seemed irreversible. The First World War put an end to all that. In the 1920s, the omnipotence of financial markets seemed just as irreversible as it does now. The 1929 crash and the long crisis that followed forced governments to monitor banking and financial activities closely. At the end of the Second World War, the governments of the main victorious capitalist countries agreed to set up bodies to regulate global finance. The IMF, for example, was established primarily to ensure that this regulation would be carried out (article 4 of its statutes is very clear in this respect). Beginning in 1945, a number of Western European governments carried out extensive nationalisations, including in the banking sector, in the face of pressure from organised labour.

Neo-liberal theoretical ‘certainties’ held forth in recent years are no more valid than those of the liberals and conservatives that held power in the 1920s on the eve of the financial meltdown. The economic failure and social disaster created by today’s neo-liberals might well lead to a round of major political and social changes.

Globalisation is not a steamroller crushing everything in its path. Resistance is alive and well in many places. Globalisation is a long way from having created a coherent and harmonious economic order. There are many contradictions within the Triad – contradictions between imperialist powers, contradictions between companies, social discontent, a crisis of legitimacy of the existing political system, and growing criminalisation in the behaviour of the main economic players. Furthermore, there are growing contradictions between the centre and the periphery, due to the exclusive nature of globalisation in its present form. Yet the countries of the periphery account for 85 per cent of total world population. Those who believe that these populations will quietly allow themselves to be marginalised are utterly wrong. As wrong as those governments in the 1940s and 1950s that believed their colonial rule in Africa and large parts of Asia would last for ever. Within the periphery itself, governments that have chosen a neo-liberal path are experiencing a growing crisis of legitimacy inside their respective countries. The ruling classes in these countries are for the most part incapable of offering credible prospects for progress to the great majority of their citizens.

Is it unrealistic to expect that the inevitable social discontent will once again assert itself through broad-based projects for emancipation? Nowhere is it written that discontent must necessarily be expressed in an inward-looking 'ethnic' or religious manner. Even in the midst of hellish conditions, such as those found in Rwanda and Algeria, there are significant forces seeking out progressive solutions.

Action by living, breathing social forces can transform even the most seemingly inextricable economic and political situation.

More than ever before, any alternative must take into account a number of different dimensions:

- The political dimension. While governments have deliberately cast aside a part of their regulatory functions, to allow for the deregulation of capital flows, they can also be pressured into reinstating these functions. It is a question of political will; if those in power cannot rise to the task, they can either step aside or be ousted.
- The dimensions of citizenship and class. Those 'from below' and their organisations – whether from the labour movement born in the nineteenth century (parties, unions), from other

grassroots movements, or from new social movements born in the latter half of the twentieth century – must reclaim their right to intervene in society and exercise control over certain aspects of public life, to exert pressure on other political and economic players, and to raise in concrete terms the question of hands-on political power.

- The economic dimension. Economic decisions lie at the junction of all the other dimensions. Such decisions should be directed at placing restrictions on capital flows and on those that control them, the holders of capital.

The recent evolution of capitalism has given renewed urgency to the debate on new forms of radicalism. Indeed, forms of consensus and compromise inherited from the past have been swept aside by the economic crisis and the neo-liberal onslaught.

Although the Fordist social consensus in the North, the developmentalist consensus in the South and bureaucratic control in the East did not do away with the use of force by those in positions of power – far from it – each of the three paths gave rise to genuine social progress in a number of fields. In fact, compromise was only possible thanks to this social progress. Yet these compromises have now been split apart by the current logic of capital and by the paths chosen by the different governments. In response, there is a need for a new approach that is anti-systemic and seeks to make a clean break with the current order. This means that those ‘from below’ have to become central players in the fight for change and in the administration of this change once it begins to take place. Just as important, this means that social movements have to remain loyal to the interests of those they represent and that they remain scrupulously independent of the institutions of political power. This can only be obtained by fostering real forms of internal democracy that give voice to those engaged in the daily grind of politics, that allow for choices to be made from a variety of contending approaches, that stimulate the debate on concrete strategies for attaining a movement’s objectives.

## CONCERTED ACTION BY WORKERS AND SOCIAL MOVEMENTS

The neo-liberal offensive is so relentless and wide-ranging that it calls for a concerted response from workers and the oppressed the world

over. Such a response is mandatory for eliminating unemployment. Such an objective can only be attained through a generalised reduction of working time, with no loss in wages and with compensatory job creation. Concerted action is required to oppose job dismissals and the transfer of workplaces to other regions and countries. Workers in the South need support from workers in the North if they are to obtain wage increases and the trade union rights that can pave the way for an overall improvement of their living conditions to levels similar to those that exist in the North.

At present, the labour movement remains the most powerful springboard for direct involvement in political struggles. It is essential, though, that those on the margins of the productive process be closely linked to the labour movement and its activities. All social movements fighting against oppression, whatever form this oppression takes, must also be intimately involved in this concert of resistance.

### PESSIMISM OF THE INTELLECT, OPTIMISM OF THE WILL

'Pessimism of the intellect' is essential for taking stock of the scale of the neo-liberal offensive and the powerful organisation of its proponents. At the same time, it would be wrong to overlook the 'optimism of the will' that spurs on whole sections of the global population.

Had this determined and courageous resistance not existed in the four corners of the planet, the ideologues and driving forces behind globalisation would have gone much further than they have been able to thus far. This is an achievement in itself, although far from sufficient.

### BREAKING DOWN THE WALLS OF ISOLATION

It is no secret that the capitalist class keeps the media, especially television, on a tight leash. It is not in its interest to broadcast images of struggles in which the oppressed demonstrate their creativity and courage.

While we may be shown confrontations with the police and army often enough, very seldom are we given any insight into the struggle in question, the inventiveness of workers, the resourcefulness of demonstrators, and details of the initiatives that attained their

objectives. To do so would give ideas to other movements elsewhere; that element of 'the news' represents a danger for the capitalist class. On those rare occasions, however, that the media do honestly relate the intelligence and scale of a movement, there is a tremendous accelerating effect on the mobilisation itself. The best recent example is that of the French strike movement of December 1995, which elicited such a wave of sympathy that the media could not play things down. By relaying this sympathy so far and wide, the media sparked a broadening of the movement.

Struggles have not declined in number, there has even been an overall increase in proportion to the growing number of attacks. Yet a persistent sense of isolation is one of the most cumbersome problems encountered by movements of resistance. One of the most pressing tasks for progressives is to break down these walls of isolation and work towards a convergence of struggles.

Given the small number of decision-makers on a world level and the generalised drop in living conditions that they are imposing around the globe, the struggle of landless peasants in Brazil is at one with the struggle of Volkswagen workers against their multinational company. The struggle by Zapatista indigenous peoples for dignity in the rural areas of Mexico is at one with the strike of American UPS workers. The struggle by hundreds of thousands of Indian farmers against GATT and the WTO is at one with the '*sans papiers*' (undocumented immigrants) movement in France. The struggle by South Korean trade unions to defend their social gains is at one with the campaign by grassroots Christian communities in Congo-Zaire for the cancellation of Africa's debt. The struggle of the Thai population against the implementation of a Draconian austerity package is at one with the popular mobilisation in Belgium against political and legal institutions unable to halt the sexual trade in children. The struggle of Algerian women is at one with the people's tribunals in Argentina that denounce the country's illegitimate debt. The struggle of Nicaraguan students is at one with Greenpeace campaigns for the environment. And the list goes on.

Indeed, the struggle of workers at Renault France is at one with the struggle of their colleagues in Belgium. French Renault workers took a giant step forward when they organised active solidarity with their Belgian counterparts. The strategy of multinationals consists of neutralising workers at one production site by attacking their colleagues at another. The struggle of Renault workers in different European

countries in May 1997 showed that this divide-and-rule strategy has its limits.

The tremors of rebellion can be felt the world over. Wherever one goes one can find people angered in the face of premeditated indignity, urged on by aspirations toward a better life, up in arms over the injustice and violence of a system portrayed as the be all and end all celebration of the 'end of history'. In many places around the world, the warlords of neo-liberalism have not gone unchallenged.

Spread the word.

### 'THE PLANET'S OTHER VOICES'

Activists and academics have organised international networks to take on their common enemy: specifically, the G7 and the Bretton Woods institutions; more generally, capital and multinational corporations. Progressive movements in Germany set the tone in 1982, on the occasion of the yearly G7 summit. Seven years later in France, a number of social movements, cultural groups and radical left-wing organisations followed in their footsteps. Indeed, hundreds of thousands of people protested against the holding of the G7 summit just a stone's throw away from the symbolic Bastille on the occasion of the bicentenary of the French Revolution. They chanted the slogan 'Enough is enough!' Since then, counter-summits have mushroomed. No major gathering held in the spirit of 'globalisation' has gone unnoticed. Not Rio in 1992, nor Cairo in 1994, nor the incongruously extravagant celebrations in Madrid in 1994 for the 50th anniversary of the Bretton Woods institutions. 'Fifty years are enough!' was the slogan raised by the 'Planet's Other Voices'. This became the rallying cry for a wide array of movements the world over, in the US, Canada, South Africa, India and elsewhere. Their presence was felt at the Copenhagen summit and in Brussels in March 1995, when the UN ceremoniously turned its attentions to the question of social development. And again at the G7 summit in Halifax in June 1995; at the UN meeting on women's future in Beijing in 1995; in Geneva in November 1995 at a CETIM-organised international symposium on the WTO. At Lille and Lyons in 1996 against the G7 summit; at Chiapas in 1996 at the first intercontinental gathering against neo-liberalism and for humanity organised by the Zapatistas. In Manila in November 1996 on the occasion of the APEC summit of 18 Asian-Pacific heads of state; at Port Louis (Mauritius)

in April 1997, where 1,200 trade unionists analysed and decried globalisation in all its forms. Fifty thousand people took to the streets of Amsterdam in June 1997 in defence of a Europe of open borders and social justice – on the occasion of the meeting of the European Council of Ministers, at which further impetus was given to plans for an anti-social Europe. In Caracas in July 1997, at the summit of Latin American countries, to seek out a strategy for the 21st century on the question of foreign debt. In the Spanish state in late July 1997, at the second intercontinental gathering against neo-liberalism. In Havana in July–August 1997 at the 18th World Festival of Youth, where 9,000 young people from around the world told the US government to ‘stuff the Helms–Burton Act where the sun don’t shine’. In Hong Kong in September 1997, social movements organised a counter-summit on the occasion of the annual meeting of the World Bank and IMF. In Geneva in February 1998, at an international gathering against the WTO. In May–June 1998, with the Global March against the exploitation of child labour, in which delegations from 98 countries participated, and which concluded in front of ILO headquarters in Geneva. In May 1998, when 60,000–70,000 people attended a meeting in Birmingham during the G7 summit, to call for the cancellation of the debt of the poorest countries. At Cardiff in June 1998, on the occasion of another people’s summit against the leaders of the European Union. And in 1999, with the worldwide Jubilee 2000 campaign in favour of debt cancellation.

### A TALE OF SUBVERSION GROUNDED IN DAY-TO-DAY LIFE

This broad movement, created in response to defining moments in recent times, is also grounded in real everyday life. Those involved have met and discussed their experiences, visited one another. This has fostered a wonderfully human culture of subversion. Our values are defined in pluralistic terms, for happily, the oppressed do not speak with one voice. This is why it is essential to bring out ‘the planet’s other voices’. Yet our ideas are not those of the oppressors, our pluralism does not brook submission to the dictates of those who seek immediate profit and gain. Why on earth should we submit to their dictates?

Resistance is also boosted by struggles on a national level. Blows must be dealt to one’s own capitalist class in order to weaken the

whole. The French strikes of late 1995 sparked a political sea-change whose first upshot, however inadequate, was the defeat of the Right in the 1997 parliamentary elections.

The organised labour movement is struggling for the generalised reduction of working time, and for the protection of hard-won social welfare programmes in industrialised countries and in those countries of the periphery (in the South and East) where such programmes were fought for and won.

Instead of staying clandestine, the *sans papiers* in France have come out openly to demand that the government legalise their situation with the proper documents.

Elsewhere on the planet, the 1994 Zapatista uprising in a peripheral part of Mexico had a huge impact in the rest of the country. No clear victory was secured as a result, but the level of consciousness throughout the country grew by leaps and bounds, restricting the ability of the Mexican government to intervene and put down by force a (reluctantly) armed rebellion. Almost simultaneously, the *El Barzón* debtors movement of hundreds of thousands of middle-class Mexican victims of globalisation, mobilised against the government. Ever since, there has been an ongoing friendly exchange between the Zapatistas and *El Barzón*.

South Korea has been portrayed as a model for emerging from underdevelopment. Yet in January–February 1997 masses of South Korean workers took to the streets against the government's neo-liberal designs. In the US, the working class has faced a series of crippling defeats since the Reagan era. Yet workers at the multinational company UPS (300,000 employees) organised a partially victorious strike movement that earned the sympathy of a majority of Americans.

In December 1997 and January 1998, French unemployed workers shattered their docile image by occupying unemployment offices across the country. Large numbers of the German unemployed followed their example soon after, in February 1998. In January 1998, the World March Against Child Labour got under way in the Philippines, South Africa and Brazil. It travelled throughout the three respective continents and converged on Geneva in June 1998. In May 1998, students backed by the Indonesian masses rose up against Suharto and IMF dictates, forcing the dictator to resign. An encouraging beginning. The future will reveal whether equally promising results will follow.

Globalisation has had the positive side-effect of forcing organisations genuinely committed to defending the interests of the oppressed to link up with other like-minded organisations. Indeed, how can anyone hope to defend effectively the right to asylum without an overall view of the situation in the Third World? Or, in the current situation, how can workers resist the temptation to back 'their' employer to save a job in 'their' workplace, to the detriment of workers in neighbouring countries? In short, how can class consciousness be sustained? Surely, getting directly involved in debates and exchanges on an international level is the only solution. How can an NGO ensure that it remains independent short of linking up with others in its own country to promote the same demands for social justice that it raises in far away lands? How can any progress be made in the fight against exclusion and unemployment without an ongoing dialogue with the trade union movement?

One often hears the complaint that it is increasingly difficult to determine exactly who is 'in charge'. The target is no longer the local boss but rather the board of directors of a multinational company. It is useless to take on national governments, since the European Council of Ministers calls the shots. To be sure, it is necessary to adapt strategy to the changing landscape. But the new forces that can be harnessed to overcome what is said to be 'impossible' to overcome, are potentially many times more powerful than before. The key thing is to be aware of the problems – but also the potential advantages – of the current situation, and moreover to spare no effort in seeking to harness this potential. It is important to stress that the need for determined political will does not imply the stifling of internal debate within movements. On the contrary, the wealth of social movements is rooted in their diversity and pluralism. These inner strengths must be fully protected by ensuring the fullest democracy in relations between the various component parts of social movements.

### **Obstacles and New Forms of Organisation**

The world over, the labour movement is experiencing a crisis of representation. The trade union movement and left-wing parties are no longer seen as the legitimate representatives of their theoretically natural constituents. The trade union movement is increasingly unable to defend the interests of workers and their families. Nor has

its approach to the problems at hand succeeded at drawing in the other social movements.

NGOs, of which a significant number radicalised during the 1970s, are also clearly in crisis. Many of them have fallen into line with their national governments or with the international organisations (World Bank, UN, UNDP).

This crisis of representation has created deep-seated scepticism about projects for radical change. Socialism, to take the most clear-cut example, has been hugely discredited by the bureaucratic experience in the so-called socialist camp in the East and by the capitulation of Western socialists to their own countries' capitalist class.

Nevertheless, social struggle continues and in some cases has grown more radical. New forms of organisation and consciousness appear fleetingly, thus far unable to give rise to a new and coherent programme. Let us not, however, make the mistake of underestimating their radicalism. Belgium, that tiny example of developed capitalism, went through a major social crisis in the autumn of 1996. The crisis was provoked by the inability of the political and legal system to put a stop to the sexual abuse and murder of children. Belgian trade unions were themselves unable to play a direct role in the crisis, even though their membership base participated actively in the strikes and street demonstrations.

There are frequent gatherings of representatives of all the 'lesses': the landless, the jobless, the homeless and the documentless. They declare loud and clear that the future of the world does not belong to markets, companies and capital, but rather to each and every citizen of the planet 'and everyone else'.

Doubtless, social movements have chalked up a long list of failures in recent years. But the history of struggles for emancipation is not a matter of adding and subtracting victories and defeats.

Can the crisis of all the various social movements give way to a new upward cycle of positive experiences and rising consciousness? The events of recent years provide cause for cautious optimism. The case for standing on the sidelines is less convincing than ever.

A tiny minority of decision-makers spare no effort to strip the individual of his or her fundamental rights, to reduce human beings to the status of just one 'resource' among others; to replace the idea of society by that of the market; to reduce the creativity and wealth of labour to one commodity among many; to destroy social awareness and leave individualism in its stead; to empty polities of all

meaning save that of giving capital and its thirst for immediate profits control over all key decisions; and to smother culture in the quest for a 'normal' way of life. The time is ripe for the millions of people and tens of thousands of organisations in the struggle, to learn to live together through a recognition of the complementarity and interdependence of their projects. To organise and promote the globalisation of forces for the (re)building of our common future, to broadcast far and wide a world view rooted in solidarity.

The time is ripe.

#### BOX 8 AN EXAMPLE OF CONVERGENCE: THE BELGIAN-BASED COMMITTEE FOR THE CANCELLATION OF THE THIRD WORLD DEBT

Impressed by the initiative taken by French activists to counter the 1989 G7 summit, a number of people called on the French writer Gilles Perrault – one of the spokespeople of the 'Enough is Enough' movement – to explain the Bastille Appeal and the French campaign for the immediate and unconditional cancellation of the Third World debt. At the time, Belgian activists were very much in the doldrums. Solidarity committees were stagnating; and trade union mobilisation floundering, subsequent to a number of partial defeats in various sectors. In such a climate, the February 1990 conference with Perrault was an undeniable success. It provided an occasion to take stock of wide-ranging enthusiasm for work around the debt question, however removed this question may have seemed at first glance from the daily concerns of those present.

The Belgian-based Committee for the Cancellation of the Third World Debt (COCAD, or CADTM in French) has been pluralist from the word go, not only in political outlook (socialist, Christian, ecologist, revolutionary), but also in its composition (individuals, trade union sections, NGOs, political parties, various associations). This is definitely one of the reasons for COCAD's dynamism and success.

COCAD's pluralist character has been the keystone for setting up a unitary framework for every initiative, whether for contacting and cooperating with other associations, for drawing up statements and petitions, for putting together publications and dossiers, or for organising public events.

From the beginning, discussion and debate around the debt issue has gone hand-in-hand with public activities aimed at kick-starting 'mobilisation'. COCAD participants never saw the organisation as a mere think tank or study circle. Other groups of this sort already exist, COCAD has cooperated with them on an ongoing basis. Since 1990, COCAD campaigns have attracted a wider and wider spectrum of people. The names of past COCAD campaigns speak for themselves: 'The Third World Debt Time Bomb'; 'Third World Debt in a Time of Cholera'; 'While 40,000 Children Die Each Day, Every Minute Counts'; 'Third World Debt: Necessary Solidarity Between Peoples'. The current campaign is called 'From North to South, Up to Our Ears in Debt'.

COCAD also functions as an editorial collective. It has helped draw up a number of platforms and declarations. Madrid 1994, Copenhagen 1995, Brussels 1995, Chiapas 1996, Manila 1996, Mauritius and Caracas 1997, are some examples of key events where COCAD was able to help enrich analytical efforts carried out in various places around the world. These democratic and organisational enterprises are vital for overcoming a sense of isolation and for working together on a given project with others.

COCAD has always taken pride in its international and internationalist identity. There is nothing surprising about being 'international' when dealing with such issues. Beyond this, however, COCAD has always seen itself as part of a broader anti-imperialist movement, as a partisan of a renewed form of internationalism. Internationalism has taken some hard blows in recent times, yet it is more urgent than ever before to set it back on its feet.

While COCAD has been building itself up patiently in Belgium, at the same time it has directly linked up with movements in other countries. Whenever possible, activists from other parts of the world have been invited to COCAD events; COCAD itself has accepted invitations elsewhere from those who had already made the trip to Belgium. A number of COCAD sympathisers have often also made the trip to these events in distant lands, weaving a stronger web of subversion in the process.

This kind of exchange has actually boosted serious grassroots activity on the home front. COCAD has always been at the ready to respond to calls for action, whether from a university professor, in a local parish's Lenten sermon, from an unemployed workers group or a long-established solidarity committee. COCAD responds

and always focuses its attention on the need to develop awareness, understanding of the issues at hand and mobilisation.

Through its work analysing the mechanisms of the Third World debt, based on an ongoing study of the different players and the policies they pursue, COCAD has had to broaden the scope of its work. Talking about frontal attacks against the educational and healthcare system, privatisation, unemployment and so on in the Third World, might ring hollow if we are not also able to point to the results of similar policies implemented at home; and if we are not able to fight these policies with the same determination even if their results are not (yet) as destructive as in other parts of the world.

In order to explain the need for a tax on speculative investment on a world level, for example, we have to raise the question of taxing wealthy estates in our own countries.

Last but not least, anyone intelligent enough to recognise the injustice of the Third World debt also has the moral duty to condemn the public debt in industrialised countries. Indeed, this public debt is responsible for a similar transfer of wealth from workers and small producers to the capitalist class.

Which brings to mind an unforgettable public debate between COCAD and Philippe Maystadt – Deputy Prime Minister of the Belgian federal government, Minister of Finance and Foreign Trade, and president of the IMF's powerful interim committee. Maystadt encouraged COCAD to continue and even to extend its activities on the international stage. The Third World is so far away, after all, and its debt amounts to peanuts! His nostrils flared, however, when the author of this book (representing COCAD) argued for decisive action against public debt in the North through the implementation of hefty estate taxes (CADTM, 1998).

COCAD does not seek to take the place of other initiatives. It is always at the ready to participate in coalitions set up in response to key events or developments. It was in this spirit, for example, that it got involved in the European Marches on Amsterdam in June 1997.

Make no mistake, COCAD's activities fall well short of the current challenge. There is an urgent need to build an international movement that is able to analyse the major global changes currently underway while at the same time acting in response to new problems. COCAD has provided proof, however modest, that it is indeed possible to make progress towards the building of just such a movement.

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# Chronology: The World Bank, the IMF and the Third World

*A political and environmental chronology from 1944 to the present day*

- 1944 **USA.** Founding of the World Bank and the International Monetary Fund at Bretton Woods, in the presence of delegations from 44 countries.
- 1947 **Indonesia.** The Netherlands receives loans from the Bank while simultaneously putting down the Indonesian independence struggle with 100,000 troops.
- 1956 **Washington, DC.** The Bank creates the International Finance Corporation (IFC), which uses government funds for joint investments with private companies.
- 1960 **Washington, DC.** The International Development Association (IDA) is created as part of the World Bank Group, to obtain low interest loans for the poorest countries – against the objections of Third World governments who want a separate institution for this purpose.
- 1964 **Thailand.** The Bank finances the Bhumibol hydroelectric dam, whose construction leads to the forced displacement of more than 3,000 people. These people have yet to receive appropriate compensation.
- 1964 **Brazil.** Having refused to provide loans to the democratically elected Goulart government, the Bank now offers significant financing in the wake of a military coup. These loans grow by

leaps and bounds until the mid-1970s, by which time they total some \$500 million per year.

- 1965 **Washington, DC.** The World Bank launches the Green Revolution. Following its request for limited food aid to deal with a drought, India is obliged to overhaul its agricultural policy, devalue its currency and implement a series of measures corresponding to the 'Green Revolution'. These measures include the use of ecologically non-sustainable agricultural techniques, mandatory export of farm products and the importation of pesticides and chemical fertilisers. It is only after implementing these measures that India receives the requested aid, which it needs for only one season. The major transformation of agriculture that results from the Green Revolution has negative effects that are still being felt (Shiva, 1991).
- 1965 **South Africa.** The apartheid regime receives loans from the World Bank in spite of UN resolutions against such aid. The World Bank persists in spite of an open reprimand from UN Secretary-General U-Thant.
- 1968 **Indonesia.** The Bank begins loans to the Suharto military regime, which came to power through a bloody *coup d'état* in 1965 that overthrew the civilian government and killed more than 500,000 people.
- 1969 **Indonesia.** The Bank provides financing for the Transmigration Programmes. These programmes use more than \$500 million to shift millions of people to remote and sparsely populated islands. The programmes have a devastating effect on the country's forests. They have a profoundly negative impact on the lifestyle of numerous indigenous communities and cause serious environmental damage.
- 1970 **Washington, DC.** For the first time, the Bank takes in more money in debt payments than it gives out in new loans.
- 1973 **Chile.** The Pinochet dictatorship receives substantial backing from the Bank in the wake of the overthrow of the Allende government, which had been unable to obtain World Bank funding.
- 1974 **Washington, DC.** Under pressure from the US Congress, the Bank sets up the Department of Operations Evaluation (DOE) to analyse the performance of past projects. On several

- occasions, the first head of the DOE threatens to resign in protest against interference from Bank executives in the independent evaluation of projects.
- 1976 **Pakistan.** The Bank finances the building of the Tarbela dam, which leads to the forced removal of 300,000 people, who become homeless.
- 1978 **India.** The Bank provides \$451 million in financing for the Upper Krishna dam, which involves the forced removal of nearly 220,000 people in one of the country's poorest regions. It has been estimated that the first 100,000 displaced people saw their earnings drop by 50 per cent.
- 1979 **Turkey.** The Bank makes its first loan within the framework of a structural adjustment programme (SAP).
- 1979 **Argentina.** The Bank makes the first of three loans totalling more than \$1 billion for the building of the Yacyreta hydroelectric dam on the Parana river between Argentina and Paraguay. Both countries are controlled by dictatorships at the time of the first loan, which is spent before building even begins. Construction lasts more than 15 years, more than 50,000 people are forcibly removed. Corruption is so extensive that President Menem has called Yacyreta 'a monument to corruption'.
- 1979 **Philippines.** The Bank discreetly withdraws from a project to build four hydroelectric dams on the Chico river, which would have involved the forced removal of 100,000 members of the Bontoc and Kalinga tribes. Ambushes of surveying teams and mass protests and civil disobedience by the local population – including lying down in front of bulldozers – lead Prime Minister Varata to declare in 1981: 'One of the four planned dams ... will not be built because the people are opposed to it.' The experience leads the World Bank to carry out an internal review of policy on minorities threatened by development.
- 1979 **Nicaragua.** The Bank suspends all loans to Nicaragua in the wake of the overthrow of the Somoza dictatorship, in place for nearly 50 years. The Bank only resumes loans to Nicaragua in 1992, two years after the electoral defeat of the Sandinistas.
- 1980 **Washington, DC.** The Bank establishes its first set of policies on forced relocation. It requires borrower countries to

- provide relocation programmes that ensure adequate compensation for displaced people.
- 1981 **Brazil.** Bank loans for the Polonoreste project in the Amazon finance the building of inland roads which pave the way to massive deforestation and the extinction of indigenous communities.
- 1981 **Brazil.** The Bank's International Finance Corporation (IFC) invests \$8 million in Cobrape, a company in which it is a shareholder, for a rice-field irrigation project. Since 1984, more than 100 families of small farmers have been resisting legal and physical attempts to remove them from their land. In 1987, they persuade a state prosecutor to lodge a complaint against Cobrape for sending men to assault the farmers, destroy fields and property, and force the farmers to sign away their property rights. In 1986, the NGO Comisão Pastoral Da Terra draws the IFC's attention to human rights violations. Yet the IFC has never contact the prosecutor or the affected parties. In 1992, the IFC discreetly withdraws from the project after making investments totalling \$4 million.
- 1982 **Mexico.** Beginning of the debt crisis, whose effects continue to affect the Mexican people. The crisis turns the World Bank and IMF into collection agencies for Western governments and private banks.
- 1982 **Ecuador.** A series of Draconian anti-social measures are taken in response to World Bank pressure. Gas prices are increased by 120 per cent, flour subsidies are eliminated, cigarette, beer and automobile taxes are increased, and public transport fares are boosted by 25 per cent. Reaction is swift and violent. Ministers are kidnapped, there are strikes in transport, education and other sectors, riots break out. The government is forced to back down on a number of fronts, salary rises are granted to compensate for the rise in prices, and gas prices are decreased.
- 1982 **Burkina Faso.** A 15 per cent salary reduction provokes a strike of government workers.
- 1983 **US.** The NGO campaign on the Bank's obligation to reveal the social and environmental impact of its activities begins with two days of hearings at the US Congress. Since 1990, NGOs in most donor countries work with partners in borrower-

- countries to lobby their governments and the Bank for real reforms.
- 1984 **Zambia.** Riots break out in response to a doubling in the price of flour and corn, caused by the elimination of subsidies. Government repression causes 15 deaths. The government is forced to reinstate subsidies.
- 1984 **Burkina Faso.** The government cuts teachers' salaries by 25 per cent. Teachers go on strike.
- 1984 **Tunisia.** Riots break out in the south in response to a doubling in the price of bread and semolina. Dozens of people die as a result of the ensuing government repression. The Minister of the Interior is forced to resign, the state of emergency is lifted, bread and semolina subsidies are reinstated and rent control remains in place.
- 1985 **Latin America.** Fidel Castro calls for the non-payment of the debt and for the establishment of a continental common front between the countries of Latin America and the Caribbean.
- 1985 **Ecuador.** The government increases the price of petrol by 67 per cent and bus fares by 50 per cent to reduce the budget deficit. The main trade union calls for a two-day general strike; seven people die in the resulting clashes. Two months later, there is another wave of strikes and demonstrations. President Cordero stays in power thanks to military backing.
- 1985 **India.** The Bank provides financing for the Sardar Sarovar dam in the Narmada valley, which threatens to displace some 200,000 people. Mass demonstrations and court challenges drag on for years, finally leading to the first independent evaluation of a Bank project. The Morse Commission condemns nearly every aspect of the Bank's involvement in the Narmada project.
- 1985 **Bolivia.** Huge price increases in food and petrol lead to 15 days of strikes and riots. The increases are carried out in line with the structural adjustment programme drawn up and financed by the World Bank and the IMF.
- 1986 **Zambia.** Hunger riots break out in the copper-belt towns, in response to a 120 per cent increase in the price of basic goods. President Kaunda declares that the conditions placed on structural adjustment loans are intolerable.

- 1986 **Brazil.** A \$500 million loan for an electricity project is used to complete a dam that damages the Amazonian rainforest and its inhabitants.
- 1988 **Nigeria.** The government eliminates subsidies for kerosene, used mostly by poor households. The increase provokes riots, during which six people are killed.
- 1989 **Venezuela.** More than 300 people (some place the figure as high as 2000) are killed during riots against a 100 per cent increase in the price of petrol and fares for public transport. These increases are part of a package of restructuring measures adopted to satisfy conditions for IMF and World Bank structural adjustment loans.
- 1989 **Ecuador.** Further increases in the price of petrol and motor-vehicle taxes lead to a general strike of bus and lorry drivers. The president calls out the army to operate public transport. In November, there are violent student demonstrations in response to an increase in bus fares.
- 1990 **Worldwide.** Despite numerous internal studies showing that the least expensive techniques are the best for ensuring energy availability, less than 1 per cent of Bank loans between 1980 and 1990 go towards improving energy efficiency and conservation. Of more than \$35 billion invested by the Bank in hydraulic projects between 1981 and 1990, only 0.4 per cent went into small-scale irrigation projects; 0.6 per cent into water distribution and 2.3 per cent into conservation. It is universally recognised that small-scale projects meet the population's needs at the lowest price. A study from the Ford Foundation says that the Bank is 'wedded to giant-sized projects'.
- 1990 **China.** The Bank resumes its loans after an eight-month suspension in the wake of the Tienanmen Square massacre.
- 1990 **Côte d'Ivoire.** The government cuts private sector salaries by 10 per cent, public sector salaries by between 15 and 40 per cent. The measures are met with student demonstrations and riots, and then strikes by teachers, health professionals and bank workers. The government is forced to relent. Still, a general strike is organised with army and police participation, threatening the stability of the regime.

- 1990 **Gabon.** In January, major riots erupt following public sector strikes against salary and job cuts. Fifty people are injured and 250 are arrested as a result of government repression.
- 1990 **Morocco.** Violent demonstrations take place in Fez against the implementation of the structural adjustment programme, 100 students are killed by government forces. Hunger riots have already taken place in Morocco, especially in Casablanca in 1981.
- 1990 **Congo.** The government cuts jobs and salaries in the public sector. A wave of strikes forces the government to withdraw its measures.
- 1990–**Rwanda.** The World Bank and IMF finance the Habyarimana dictatorship, which is preparing a genocide. The massacres are perpetrated during a three-month period beginning in April 1994.
- 1991 **Thailand.** Despite strong opposition from the population, the Bank begins funding the Pak Mun dam project, which endangers the Mekong ecosystem.
- 1991 **Lesotho.** The Bank provides \$110 million for the Highlands hydraulic project, even though it will flood major archaeological sites, displace shepherds and poor farmers, and threaten endangered species. Local groups organise opposition to the project, whose objective is to redirect water to South Africa.
- 1991 **Honduras.** The national electricity workers' union goes on strike against government plans to privatise the state-owned company and cut staff in line with World Bank and IMF structural adjustment prescriptions. More than 700 workers are dismissed over three months, the trade union disappears.
- 1991 **India.** The Bank and IMF provide more than \$200 million for the construction of a 500 MW thermal power station on territory belonging to an aboriginal community, to provide electricity to Bombay. Local groups take the Indian company to the Bombay High Court and the Indian Supreme Court.
- 1991 **Peru.** As part of the 'Fuji-shock', prices on fuel and other basic products are massively increased. According to many observers, the poorest sectors of the population of Lima are no longer able to boil their water, leading to new outbreaks of cholera.

1992 **Washington, DC.** The Bank's chief economist, Larry Summers, publishes a confidential report in which he calls for exporting the North's polluting industries to the South, which he describes as being 'largely under-polluted'. He sees this as a rational way to further industrial development while reducing pollution in the North. Among other things, the future joint secretary of the Treasury for the Clinton administration writes:

There are no limits on the planet's capacity for absorption likely to hold us back in the foreseeable future. The danger of an apocalypse due to global warming or anything else is non-existent. The idea that the world is heading into the abyss is profoundly wrong. The idea that we should place limits on growth because of natural limitations is a serious error; indeed, the social cost of such an error would be enormous if ever it were to be acted upon ... In my view, the economic logic of disposing of toxic waste in low-income countries is impeccable.

(Better for sickness and death to occur in places where the loss of earnings is the lowest!).

His conclusion is typical of the Bank's approach to such matters:

The environment is a critical global problem. Environmental problems are serious the world over, but it is only in the poor countries that they maim and kill millions of people every year, by aggravating all the other terrible effects of poverty. Any strategy on environmental problems that slows the growth of poor countries, either by direct regulation or by market limitation, is perfectly immoral. (quoted in George and Sabelli, 1994)

1992 **Chile.** The Bank's International Finance Corporation (IFC) approves a financial package worth 124.9 million dollars for the Pangué dam on the Bio Bio river, disregarding two years of opposition on the local and international levels. In 1993, more than 2,000 opponents of the dam attend a meeting of seven Pehuenche communities billed as 'a symbolic act for

the defence of the cultural identity and lands of Chilean indigenous peoples'. In 1995, the Inspection Council of the World Bank rejects a request to inspect the project, saying that IFC projects are outside its jurisdiction.

- 1992 **Rio de Janeiro.** The Bank is handed the job of managing the Global Environmental Fund (GEF).
- 1993 **Worldwide.** An internal review at the Bank says that 37 per cent of the Bank's projects do not fulfil its own financial criteria and that 78 per cent of conditions for loans are not met. Other internal reports concede that more than two million people have been removed by force to make way for Bank-financed projects.
- 1993 **China.** With human rights violations continuing apace, China receives a total of \$3.17 billion in the year, becoming the Bank's biggest borrower.
- 1993 **Washington, DC.** The Bank finally agrees to set up an independent Inspection Council, empowered to look into the complaints of communities severely affected by projects where the Bank has not respected its own procedures and policies.
- 1994 **Mexico.** The Zapatista rebellion emerges on the first of January, in response to the coming into effect of the free trade agreement between Mexico, Canada and the US (NAFTA). At the end of the year, a financial crisis erupts. The national currency is devalued by 40 per cent; 850,000 jobs are eliminated over six months.
- 1994 **India.** After persistent local and international protest, the Bank abandons the Sardar Sarovar dam in the Narmada valley at India's request, confirming the conclusions of the Morse Commission. It is recognised that incontestable human-rights violations had taken place through the contravention of planned re-housing measures. The Indian federal government and the local state government continue to breach re-housing policies stipulated in the loan agreement.
- 1994 **Worldwide.** Of more than 6,000 loans proposed by the Bank administration since 1947, not a single one has been rejected by the Bank's executive directors.
- 1995 **Papua New Guinea.** The structural adjustment programmes of the Bank and the IMF are the cause of riots, with the police opening fire resulting in three deaths. The

- SAPs aim to open up the PNG economy to exploitation at the hands of multinational corporations.
- 1995 **Washington, DC.** The IMF finally sets up an independent review unit to oversee its evaluations of the economic conditions in member-countries. It does so in response to criticism in the Whittome Report that it had been unable to foresee the crisis of the Mexican peso in its 1994 economic report on the country. The original analysis had contained warnings concerning a situation of 'quasi-crisis', but the government persuaded IMF officials to water down the report. Since then, the World Bank and the Inter-American Development Bank have spent more than \$2 billion dollars to get Mexico's private banks back on their feet.
- 1995 **Nepal.** The Bank agrees to withdraw financing from the Arun dam after Nepalese citizens groups take their case to the Independent Inspection Council. The Bank president recognises that the Arun dam is not the kind of project Nepal most needs, and promises to work on obtaining financing for alternative projects drawn up by NGOs.
- 1996 **Jordan.** Riots erupt in response to the 200 per cent increase in the prices of basic goods that follows SAP-inspired subsidy cuts.
- 1996 **Washington, DC.** The Bank and the IMF launch an initiative for the Severely Indebted Low-Income Countries (SILICs), to make debt repayment more 'bearable' (Toussaint, 1997c). The initiative does not seek to serve the needs of the populations of the countries in question, but rather to ensure the smooth flow of debt-servicing payments.
- 1997 **Washington, DC.** The Bank creates the Structural Adjustment Participatory Review Initiative (SAPRI) to involve NGOs in its SAP review process, thereby taking the sting out of their criticisms. According to the Bank, 47 per cent of its projects have NGO participation, while 72 Bank missions maintain regular contact with local NGOs (1997 Annual Report). Unfortunately, this has not led to a change in the Bank's macroeconomic orientations. The Bank says that 29 per cent of its loans targeted the poor in 1997, as opposed to 32 per cent in 1996. This is a drop of nearly 10 per cent of the share of loans going to the poor.

- 1997 **Uganda.** The first country to be targeted by the HIPC initiative, Uganda's debt reduction is postponed to April 1998.
- 1997 **East and Southeast Asia.** On several occasions, the World Bank and IMF declare in official documents that there is no threat of a serious crisis in Southeast Asia. This does not prevent a crisis from erupting in the summer. The IMF imposes severe austerity packages involving the elimination of millions of jobs and of subsidies to basic goods. In October, the IMF announces there is no threat of the crisis spreading to South Korea. In November, South Korea is hit hard by the unfolding crisis. IMF president, Michel Camdessus, declares the crisis to be a 'blessing in disguise' (*Libération*, 1 December 1997).
- 1998 **Rwanda.** Rwanda is obliged to repay IMF and World Bank loans made to the former Habyarimana regime (1973–94) to buy arms used in the 1994 genocide.
- 1998 **Zimbabwe.** Food riots erupt in January against the increase in the price of basic staples.
- 1998 **Mozambique.** In January, the Paris Club announces an 80 per cent reduction in debt from 1999 or the year 2000 onwards – in line with IMF and World Bank promises to make a positive gesture in the country's direction. If the reductions are indeed granted, the ratio of total debt to export revenues will, at 200 per cent, remain unbearable. This is no solution for one of the planet's poorest countries.
- 1998 **East and Southeast Asia.** The 'Asian miracle' is over. Yet it has been the IMF and World Bank model for 20 years. The social balance sheet is catastrophic. The IMF and local governments impose policies implying nothing less than a sell-off of the countries' national wealth. Who will the next victims be?
- 1998 **Russian Federation.** In August–September the country is rocked by a major stock market and financial crisis, plunging it into political chaos.
- 1998 **Eastern Europe.** In September, the Russian crisis spreads into other countries of the former Eastern Bloc (especially Poland and Bulgaria).

- 1998 **G7.** The stock markets of the main industrialised countries enter a period of tremendous instability, which it will be difficult to control.
- 1998 **Latin America.** The main Latin American countries (Brazil, Mexico, Argentina and Venezuela), thus far relatively sheltered from the stock market depression and financial crisis, once again find themselves on the edge of the precipice.

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# Glossary

## AUTHOR'S NOTE

In this book the following terms are used interchangeably: Third World, (the countries of) the South, the periphery, the developing countries. These terms are generally used in contrast to: the Triad, the main industrialised countries, (the countries of) the North, the centre, the imperialist countries – also considered as synonymous.

## BIS (THE BANK OF INTERNATIONAL SETTLEMENTS)

Founded at Basel as a public company in 1930 to handle German reparations after the First World War. The BIS manages part of the foreign currency reserves of the central banks. Its capital of 1.5 billion francs-or is divided into 600,000 shares mainly underwritten by European central banks, with the remainder held by private investors who are entitled to dividends but not votes. The governors of the affiliated central banks, mainly those of the Group of Ten, meet regularly to promote good communication and close cooperation. The federal banks of New York, Canada and Japan regularly send observers. The BIS plays an important role in gathering data on international banking transactions, published in a quarterly report since the early 1980s. It is responsible for handling financial risks associated with the liberalisation of money markets. It also carries out banking transactions, receiving gold and currency deposits mainly from the central banks, selling the currency on the markets and granting loans to certain central banks. Little research has been done on the BIS, least of all in relation to the IMF.

## **DEBT**

### **Multilateral Debt**

Debts due to the World Bank, the IMF, the regional development banks such as the ADB (African Development Bank), and other multi-lateral institutions such as the European Development Fund.

### **Private Debt**

Loans contracted by private borrowers, regardless of the lender.

### **Public Debt**

All loans contracted by public borrowers.

### **Rescheduling**

Modification of the terms of a debt, for example by modifying the due dates or by postponing repayment of the capital sum and/or the interest.

### **Debt-Servicing**

Repayment of interest plus amortisement of the capital sum.

### **Net Financial Transfer**

This refers to the subtraction of debt servicing (yearly payments – interest + capital sum – to the industrialised countries) from the year's gross payments (loans) made by the creditors. The net financial transfer is said to be positive when the country or continent concerned receives more (in loans) than it pays out. It is negative if the sums repaid are greater than the sums lent to the country or continent concerned. Since the mid-1980s, the IMF earns more from sub-Saharan Africa than it lends it. The net financial transfer is thus negative in this region of the world.

## **FOREIGN DIRECT INVESTMENT (FDI) (TAKEN FROM CHESNAIS 1994)**

Foreign investment can take the form of direct investment or portfolio investments. Even though it is sometimes difficult to distinguish

between the two, for reasons of accountancy, jurisdiction or statistics, a foreign investment is considered to be a direct investment if the foreign investor holds 10 per cent or more of ordinary shares or voting rights in a company. This criterion, though somewhat arbitrary, is based on the idea that such a holding corresponds to a long-term investment whose holder has some influence on the firm's management decisions. On the other hand, a foreign investment of less than 10 per cent is considered as a portfolio investment. Portfolio investors are not considered to have any influence on the management of companies they hold shares in. Portfolio investments cover all bank deposits and financial investments in the form of public or private securities. The flow of direct investments, to whatever destination, represents the sum of the following elements:

- net capital contributions made by the direct investor in the form of share-buying, capital increase or the founding of a new company;
- net loans, including short-term loans and advances made by a parent-company to a subsidiary; distributed profits (reinvested).

## EURODOLLARS

The eurodollar market is said to have arisen, during the Cold War of the 1950s, from the Soviet authorities' wish to capitalise their dollar reserves without having to sell them on the American money market. Nevertheless, in structural terms it was the amount of American capital outflow which caused the market's spectacular boom in the second half of the 1960s. The growing deficit of the balance of American capital during this period results from the combination of three elements: massive investment in American firms abroad, especially in Europe; the ceiling imposed on interest rates by Q regulations, which encouraged foreign loans on the American market and discouraged deposits in the US; the cost of the Vietnam War. In 1963 the US authorities introduced a tax on non-resident borrowing, to slow down capital outflow. The result was a shift in the demand for financial backing in dollars from the US market to the European markets, where American bank subsidiaries could operate more freely. The supply of dollars on these markets came partly from American institutions and companies discouraged by the very low

interest rates in the US, partly from the central banks of the rest of the world holding their exchange reserves in dollars. The term ‘eurobanks’ refers to banks dealing in dollars on European soil, and by extension, to the ‘xenobanks’ dealing in any currency outside its country of origin. Free of state control and the obligation to lay down reserves, they could offer high returns to their depositors and competitive rates to their clients without reducing their profit margins (Adda, 1996).

### **FINANCIALISATION OF A NATION OR FIRM**

The degree of financialisation of a nation or firm is measured by a simple indicator where the numerator is the financial assets and the denominator, the financial assets plus the real assets. More precisely, it may be said that financialisation exists when industrial firms devote an increasing portion of their resources to strictly financial activities, often to the detriment of the principal activity. (Salama, in Chesnais, 1996)

#### **G5**

The G5 (Group of Five) came about in 1967, when the US and the UK called a meeting of the Ministers of Finance of the top five industrial countries (Germany, US, France, UK and Japan). The G5 nations still carry most weight in the G7.

#### **G7**

Germany, US, France, UK, Japan, Italy and Canada. The seven heads of state generally meet annually in late June, early July. The first G7 summit was held in 1975, on the initiative of the French president, Valéry Giscard d’Estaing.

#### **G8**

Composed of the G7 plus the Russian Federation (since 1995).

#### **G10**

Composed of the G7 plus Belgium, the Netherlands and Sweden, the ten countries which signed the General Agreement to Borrow in

1962, which has been constantly renewed ever since. Switzerland became an associate member in 1976 and is now a full member.

## G24

The G24 was created in 1972 by the G77 whose members were worried at the growing influence of the G10. At first, its main function was to prepare the developing countries' positions for the Committee of 20. Since the establishment of the Interim Committee and the Development Committee, its field of interest has broadened to include development issues. It is the mouthpiece for the developing countries, as the G10 is for the OECD countries.

## G77

The G77 arose from the group of developing countries which met to prepare the first UN conference on trade and development (UNCTAD) in Geneva in 1964. The group provides a forum for the developing countries to discuss international economic and monetary issues.

## GLOBALISATION (TAKEN FROM CHESNAIS, 1997a)

The term 'globalisation' was coined in American business schools. It refers to the relevant parameters of strategic action of very large industrial or financial groups. The strategy of such large groups consists of adopting a 'global' approach and 'global' policies bearing on Solvent Demand Markets, on the group's sources of funding and on the strategies of its main oligopolistic rivals. This strategy is all of a piece with the operations of financial investors and the composition of their portfolios. It is because of the connotations the term 'global' has for large industrial groups or large financial investors that the expression 'globalisation of capital' rather than 'globalisation of the economy' has always seemed to me the more appropriate. In a public debate, the president of one of the biggest European groups explained that 'globalisation' represented 'freedom for his group to set itself up wherever it wanted, for as long as it wanted, to produce whatever it wanted, buying and selling with the least possible number of restrictions as far as labour laws and social conventions were concerned'. Until recently, it seemed possible to analyse globalisation as the latest stage in the process of internationalisation of capital, as exemplified

by the large transnational industrial groups. Today this is clearly no longer sufficient. The 'globalisation of the economy' (Adda, 1996) or more precisely, 'the globalisation of capital' (Chesnais, 1994) must now be seen as more than just another phase in the process of the internationalisation of capital begun over a century ago – or even as something quite different. We are dealing here with specific and important new modes of behaviour in world capitalism, and to reach a better understanding of what is taking place, we must examine the underlying mechanisms and trends. Points of departure from the functioning of the main economies, inside or outside the OECD, need to be considered as a whole, on the hypothesis that they are probably part of a single system. My own opinion is that they reflect the passage into a new phase of imperialism (in the terms of the theory of imperialism developed by the left wing of the Second International almost a century ago), which differs greatly from the one in force between the end of the Second World War and the beginning of the 1980s. In the hope that a better description will soon be found through discussion and, if necessary, heated debate, I refer rather awkwardly to this new phase as 'the global regime of accumulation mainly through finance'. The differentiation and hierarchisation of the contemporary world economy on a planetary scale is as much the result of concentrated capital operations as of the political relationships of dominance and dependency between states, whose role is by no means diminished, however much the configuration and mechanisms of that dominance have been modified. The origin of 'the global regime of accumulation mainly through finance' is both political and economic. It is only in the neo-liberal jargon that the state is 'outside' the 'market'. The present triumph of the 'market' would have been impossible without the repeated political interventions of the political institutions of the strongest capitalist states (starting with the members of the G7). This freedom has enabled industrial capital, and even more, financial capital, both made respectable as 'money', to spread their wings as never before since 1914. Of course this freedom is also founded on the strength regained after the long period of uninterrupted accumulation of the 'boom years' (1950s, 1960s, 1970s) – probably the longest of the entire history of capitalism. But capital could never have achieved its ends without the success of the 'conservative revolution' at the end of the 1970s.

### GROSS DOMESTIC PRODUCT (GDP)

The GDP represents the total wealth produced in a given territory, calculated as the sum of added values.

### GROSS NATIONAL PRODUCT (GNP)

The GNP represents the wealth produced by a nation, as opposed to a given territory. It includes the revenue of citizens of the nation abroad.

### HUMAN DEVELOPMENT INDICATOR (HDI)

This instrument is used by the UN to estimate the degree of development of a country, in respect of per capita income, the level of education and the average life-expectancy of the population.

### IMF (THE INTERNATIONAL MONETARY FUND)

The IMF's capital consists of contributions in strong currencies (and in local currencies) by member countries. According to the size of its contribution, each member-state is entitled to Special Drawing Rights (SDR) which are monetary assets freely and immediately negotiable against the currency of a third state. SDRs are designed to work in what is known as a short-term economic stabilisation policy, in order to reduce the country's budget deficit and limit the total amount of money in circulation. This stabilisation is usually the first phase of IMF intervention in debtor countries. However, the IMF has taken upon itself (since the first wave of the oil crisis, 1974–75) to bring its influence to bear on the productive base of Third World economies by restructuring whole sectors: this amounts to a longer-term adjustment policy. It does the same thing with the countries said to be in transition towards a market economy (Norel and Alary, 1992, p. 83).

### INDUSTRIAL FREE ZONE

Geographical area where industrials producing for export are exempt from paying duty on the production factors they import and to which certain elements of other national regulations are often not applicable. (Source: World Bank.)

### IMF: distribution of administrators' votes (24)

US	17.82%
Germany	5.55%
Japan	5.55%
United Kingdom	5.00%
France	5.00%
Italy	4.00%
Canada	3.70%
Belgium	5.00%
Netherlands	4.64%

i.e. nine industrialised countries 56.26%

### INDUSTRIALISATION BY IMPORT-SUBSTITUTION

This strategy mainly concerns a historic experiment in Latin America in the 1930s and 1940s, and the school of thought known as CEPAL (the UN Economic Commission for Latin America), and especially work published by the Argentinian Raul Prebisch. The starting point is the observation that when faced with a drastic reduction in currency exchange, the main countries of Latin America had managed to respond to domestic demand by replacing imported products by the development of local production. The CEPAL theory holds that this process can be fruitfully extended to all sectors of industry, one after the other, and thus enable the country to 'disconnect' from the centre. A good dose of protectionism and coordinated state intervention are expected to promote the expansion of budding industries. It is a sort of reformist version of the dependence theory, which relies on dynamic local entrepreneurs (Coutrot and Husson, 1993, p. 117; Prebisch, 1981; Clairmont, 1987; Ugarteche, 1996).

### INTERNATIONAL MONETARY SYSTEM (IMS)

The IMS is a system of rules and mechanisms set up by states and international organisations to promote international exchanges and coordinate national monetary policies. The present system was set up under the Jamaica Agreement (1976), which overhauled the preceding one, dating from the Bretton Woods Agreement of 1944 (US).

## LIBOR (LONDON INTERBANK OFFERED RATE)

The interbank interest rate of the London City (very close to the American 'prime rate', also a basic rate for international loans).

## THE LONDON CLUB

The members are the private banks which lend to Third World states and companies. During the 1970s, deposit banks had become the main source of credit for countries in difficulty. By the end of the decade, these countries were receiving over 50 per cent of total credit allocated, from all lenders combined. At the time of the debt crisis in 1982, the London Club had an interest in working with the IMF to manage the crisis. The groups of deposit banks meet to coordinate debt rescheduling for borrower countries. Such groups are known as advisory commissions. The meetings, unlike those of the Paris Club, are held in New York, London, Paris, Frankfurt or elsewhere at the convenience of the country concerned and the banks. The advisory commissions, which started in the 1980s, have always advised debtor countries immediately to adopt a policy of stabilisation and to ask for IMF support before applying for rescheduling or fresh loans from the deposit banks. Only on rare occasions do commissions pass a project without IMF approval, if the banks are convinced that the country's policies are adequate.

## THE LONG WAVES OF CAPITALIST DEVELOPMENT

(1826–47, 1848–73, 1874–93, 1914–39, 1940(48)–67, 1968–?)  
The long waves are marked by striking fluctuations in the averages of growth, with ups and downs between successive long waves ranging from 50 to 100 percent. ... The Marxist long waves theory is in the last analysis a theory of "long waves in the average rate of profit". ... In the explanation of the sudden upsurges in the average rate of profit after the great turning points in 1848, 1893, and 1940(48), extra-economic factors play key roles. And for the very same reason, Marxists generally should not accept a Kondratieff type of theory of long cycles in economic development, in which there is, in the economy itself, a built-in mechanism through which an expansive long cycle of perhaps twenty-five years leads to a stagnating cycle of the same length, which then leads automatically

to another expansive long cycle, and so on. ... The long waves are not just empirically demonstrable. They do not simply represent statistical averages for given time spans. There is nothing "formal" or "conventional" (i.e., in the last analysis, arbitrary) about them. ... They represent historical realities, segments of the overall history of the capitalist mode of production that have definitely distinguishable features. For that same reason, they are of irregular duration' (E. Mandel, *Long Waves of Capitalist Development: A Marxist Interpretation*, Verso, 1995). Such historical periods are characterised by a 'productive order' or 'accumulation regime', with a specific mode of accumulation of capital, type of material productive forces, mode of social regulation, type of international division of labour and reproduction scheme.

## MARKET TYRANNY

'This means nothing less than the right of those among whom the money-capital is concentrated, after having made it and greatly increased it, to take for themselves a disproportionate share of the wealth created through the production process' (Serfati, in Chesnais, 1996).

## NEW DEAL

This term appeared for the first time at the US Democratic Party convention in Chicago in July 1932. It was to refer to the experiment attempted in 1933 by President Franklin Roosevelt, to end the deep economic crisis that the US had been going through since 1929. The expression New Deal covered a series of measures from aid to the worst-hit economic sectors to social reforms. From 1938 on, a new recession occurred and showed the limits of the New Deal. The economic revival took place thanks to the outbreak of the Second World War. Roosevelt did not draw up a consistent plan such as the one implemented by the British Labour government of 1945.

## OECD (ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT)

The OECD includes the 15 members of the European Union plus Switzerland, Norway, Iceland; in North America: the US and Canada;

and in Asia and the Pacific: Japan, Australia and New Zealand. Since 1994, three Third World countries have entered the OECD: Turkey, also a candidate for the EU; Mexico, also part of NAFTA with its two North American neighbours; and South Korea (December 1996). Since 1995, three countries of the former Eastern Bloc have joined: the Czech Republic, Poland and Hungary. Recent additions to the OECD faithfully reflect the configuration of the Triad as described in this book, i.e. the three central axes of the USA (plus Canada), Western Europe and Japan (plus Australia) and their respective peripheries.

List of the 29 OECD member countries in 1997 in alphabetical order: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, South Korea, Spain, Sweden, Switzerland, Turkey, UK, US.

## OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

(See end of Chapter 8.)

## OLIGOPOLY

'A state of limited competition when a market is shared by a small number of producers or sellers' (*Shorter Oxford Dictionary*, 1983). The condition of oligopoly arises from the interdependence between the firms that make it up: 'firms which no longer react to impersonal forces coming from the market, but to their rivals, personally and directly' (Pickering, 1974). The global oligopoly is an 'area of rivalry', defined by mutual market-dependent relations between the small number of large groups which manage to acquire and keep the status of effective competitor, within an industry (or within a complex of industries with a common generic technology), on a world scale. The oligopoly is the focus both of ferocious competition and of collaboration between groups (Chesnais, 1996).

## THE PARIS CLUB

This group of lender states, specialising in dealing with non-payment by developing countries, was founded in 1956 at the time of the Suez

crisis. From its beginnings, there has traditionally been a French president: Christian Noyes, Jean Arthuis's right-hand man, succeeded Jean Claude Trichet in 1993, when Trichet became Governor of the Bank of France. The member-states of the Paris Club have rescheduled the debts of some 70 developing countries. The Club members own nearly 30 per cent of Third World debt stock. Links between the Paris Club and the IMF are extremely close, as witnessed by the observer status enjoyed by the IMF in the Paris Club's otherwise confidential meetings. The IMF plays a key role in the Paris Club's debt strategy, and the Club relies on IMF expertise and macroeconomic judgements in instigating one of its basic principles: conditionality. In return, the IMF's status as privileged creditor, and the implementation of its adjustment strategies in the developing countries, are bolstered by the Paris Club's actions.

### **PRIVATE LOANS**

Loans granted by commercial banks, whoever the borrower.

### **PUBLIC LOANS**

Loans granted by public lending institutions, whoever the borrower.

### **REAL RATE OF RETURN**

Nominal interest rate less the forecast rate of inflation.

### **SECURITISATION (TAKEN FROM ADDA, 1996)**

Describes the new preponderance of security issues among market activities (traditional international bonds issued on behalf of a foreign borrower in the financial location and in the currency of the lender country; eurobonds drawn on a different currency from that of the place of issue; international shares). To this should be added the technique of transforming former bank credits into negotiable securities, which enabled banks to disengage from developing countries faster after the debt crisis. The main logic behind this securitisation is that it spreads the risk. First, it spreads it numerically, since the risk of defaulting by borrowers is no longer concentrated on a small number of closely related multinational banks. Then there is

the qualitative spread of the risk, since each component of risk carried by any particular security may lead to the invention of specific negotiable instruments of protection such as fixed-term contracts to protect against the exchange risk, fixed-interest contracts to protect against variation in interest rates, negotiable option markets, etc. This proliferation of financial instruments and derivative markets gives the international markets a casino-like air.

### SILIC (SEVERELY INDEBTED LOW-INCOME COUNTRIES)

Countries with a per capita income of less than US\$695 (in 1993) and showing more than 200 per cent as a percentage ratio of debt stock/annual export revenue.

### STRUCTURAL ADJUSTMENT FACILITY (SAF) AND ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF) (FROM LENAIN 1993, p. 99)

These facilities are IMF instruments which emphasise growth, the fight against poverty, structural reforms and foreign funding reckoned over a period of three years. ESAF loans are greater in amount but demand considerable structural efforts and entail stringent conditionality. Countries have to be very poor to qualify for them. Created in 1987, the ESAF was extended and broadened in scope in February 1994. ESAF loans are repaid in ten six-monthly instalments, ending ten years after the date of initial outlay, held over for five and a half years. Their interest rate is lower than market rates. ESAF funding is allocated to support stringent medium-term structural adjustment plans. It is financed by more than 40 member-states of the IMF, about half of which are developing countries (IMF document).

### SURPLUS VALUE

Surplus value is the difference between the value newly produced by labour power and that labour power's own value, that is, the difference between the value newly produced by a worker and the costs of reproduction of his or her labour power. Surplus value, that is the sum total of the incomes of the propertied classes (profits + interest + ground rent), is therefore a deduction from the social product: it is what remains of the social product once the reproduc-

tion of the workforce is assured and its maintenance costs covered. It is therefore nothing else than the monetary form of the social surplus product, which is the propertied classes' share in the distribution of the social product in all class-structured societies: slave-owners' income in a slave society; feudal ground rent in a feudal society; tribute in the tributary mode of production, etc. The wage-earner, the proletarian, does not sell 'labour' but his or her labour power, his or her production capacity. It is this labour power that bourgeois society transforms into a marketable commodity. It has its own value, which is an objective fact like that of any commodity: its own production costs, its reproduction overheads. Like any commodity, it has its use (use value) for the buyer, which is a precondition for its sale but which by no means determines the price it is sold at. Yet the use, or use value, of labour power for its buyer, the capitalist, is precisely that of producing value, since, by definition, all labour in a market economy adds value to the value of the machines and the raw materials it is applied to. Thus every wage-earner produces 'value added'. However, since the capitalist pays the worker a wage – which represents the cost of reproduction of labour power – he will only buy this labour power if the value 'added' by the worker exceeds the value of the labour power itself. This fraction of value newly produced by the wage-earner Marx calls 'surplus value'. The discovery of surplus value as a fundamental category of bourgeois society and its mode of production, along with the explanation of its nature (a result of the surplus labour, of the unpaid, unrewarded work supplied by the wage-earner) and of its origins (the economic necessity for the proletarian to sell his or her labour power to the capitalist as a commodity), represents Marx's main contribution to economics and the social sciences in general. This is, in itself, the application of the perfected labour theory of value to the specific context of a specific commodity, labour power (Mandel, 1986).

## TRIAD

The expressions 'Triad' and 'Triadic' come from K. Ohmae (1985). They were first used in business schools and economic journalism, before entering into more common usage. The three axes of the Triad are the US, the European Union and Japan, but round each of these axes larger groups have formed. According to Ohmae, the only hope for a developing country – to which must now be added the former

so-called socialist countries – is to reach for the status of associate, or even peripheral, member, of one of these axes. This also holds for the new industrialised countries (NIC) of Asia, which have been gradually integrated into the axis led by Japan, though with marked differences from one country to another (Chesnais, 1997).

### UNCTAD (UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT)

This was established in 1964, after pressure from the developing countries, to offset the GATT.

### WELFARE STATE

The term 'Welfare State' dates from 1942. It was a pun on 'Warfare State'. Sir William Beveridge wrote two reports for the Conservative government, the second of which, published in 1944, was entitled: 'Full Employment in a Free Society'. In it he discusses the ideas of the economist John Maynard Keynes for combating poverty, unemployment, etc. Immediately after the war, with the rise to power of the Labour Party, the expression 'Welfare State' was applied to cover a series of social reforms. During the 1950s, the term became associated only with the strictly social aspects. The English term 'Welfare State' has been translated into French as *l'État-Providence*, implying that social rights 'fall from heaven' onto 'passive' and 'irresponsible' citizens. It is important not to confuse the British and European sense of 'Welfare State' with the US acceptance, where it refers to handouts only.

### THE WORLD BANK

Founded in 1944 at Bretton Woods in the context of the new international monetary system, the Bank's capital is provided by member-countries and especially borrowed from the international capital markets. The Bank finances public or private sector projects in the Third World and former so-called socialist countries. It is composed of the following three subsidiaries: the International Bank for Reconstruction and Development (IBRD, 180 members in 1997) makes loans for large sectors of activity (agriculture, energy). The International Development Association (or IDA, 159 members in

1997) specialises in very long-term loans (15–20 years) at nil or very low interest rates to the least developed countries (LDC). The IFC (International Finance Corporation) is the World Bank subsidiary responsible for financing private firms and institutions in the Third World. With the increase in indebtedness, the WB and the IMF (International Monetary Fund) have adopted a macroeconomic perspective in their dealings. For example, the WB increasingly imposes adjustment plans designed to improve the balance of payments of heavily indebted countries. It never hesitates to dispense 'advice' to countries undergoing IMF 'therapy', on the best ways to reduce budget deficits, mobilise domestic savings, incite foreign investors to move in and liberalise currency exchange and prices. Finally, since 1982 the WB has made structural adjustment loans in support of these programmes to countries which follow its policies.

Types of loans granted by the World Bank:

1. Project-loans: traditional-style loans for power stations, oil and petroleum, forestry industries, agricultural projects, dams, roads, water distribution and purification projects, etc.
2. Sectorial adjustment loans aimed at an entire sector of the national economy: energy, agriculture, industry, etc.
3. Loans to agencies whose role it is to direct the policies of institutions towards foreign trade and to open the way for transnationals. Such loans also finance the privatisation of public services and public enterprises.
4. Structural adjustment loans, ostensibly designed to mitigate the debt crisis, and which invariably encourage neo-liberal policies.
5. Loans to combat poverty.

#### WORLD TRADE ORGANISATION (WTO) (taken from M. Khor, 1997)

The WTO founded on 1 January 1995, replaced the General Agreement on Tariffs and Trade (GATT), where states had only had the status of 'contractual parties', as a permanent negotiating forum. One of the WTO's objectives is to dismantle state monopolies resulting from a public decision, where such monopolies still exist. This is what happened for telecommunications, for which the decision was made by the WTO in February 1997. Yet others still remain, such as the railways, and are coveted by the financial groups. Another objective

is the liberalisation of investments. The projected instrument to achieve this is the Multilateral Agreement on Investment (MAI), which the OECD was set to approve when France withdrew from discussions in October 1998. The MAI, which was originally decided upon at the ministerial meeting of the OECD in May 1995, targets all investments: direct (industry, services, natural resources) and portfolio. It provides protection mechanisms, especially for the total repatriation of profits. The WTO will doubtless raise the MAI from the dead for renewed consideration by member-states.

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