Globalisation

From North to South: Debt crisis and adjustment plans

- IV Online magazine -  2000 - IV325 - November 2000 -

Publication date: Friday 10 November 2000
The crisis of public debt in the countries of the Third World and the East as well as in the industrialised countries has, from the 1980s onwards, been used to systematically impose austerity policies in the name of adjustment. Accusing their predecessors of having lived above their means by resorting too easily to borrowing, most governments in power in the 1980s progressively reined back on public expenditure and its social component in particular.

So far as the countries of the Third World and the East are concerned, the formidable growth of the public debt began at the end of the 1960s and led to a crisis of repayment from 1982 onwards. Those essentially responsible for this debt are to be found in the most industrialised countries: the private banks, the World Bank and the governments of the North who lent some hundreds of billions of eurodollars and petrodollars.

To recycle their capital and commodity surpluses, these various actors in the North lent at very low rates of interest. The public debt of the countries of the Third World and East thus multiplied by twelve between 1968 and 1980. In the most industrialised countries, public debt also grew strongly during the 1970s as governments tried to respond to the end of the post-war boom through Keynesian policies of reflation of the economic machine.

A historic turn began in 1979, 1980, 1981 with the coming to power of Thatcher and Reagan, who applied on the grand scale the policies dreamed of by the neo-liberals, notably by increasing rates of interest very strongly. These increases obliged the indebted public powers to transfer colossal amounts to private financial institutions. From this moment on, on a world scale, the repayment of the public debt constituted a formidable mechanism for pumping a part of the wealth created by employees and small producers to the profit of financial capital.

The policies dictated by the neo-liberals constituted a considerable offensive of capital against labour. To balance their accounts, the indebted public powers agreed to reduce social expenditure and investment and to resort to new borrowings so as to cope with higher rates of interest: hence the famous 'snowball' effect experienced everywhere on the planet during the 1980s. This refers to the mechanical increase in the debt caused by the combined effect of high rates of interest and new borrowings necessary to repay previous borrowings.

To repay the public debt, the governments relied notably on tax receipts whose structure evolved in a regressive manner in the course of the 1980-1990s. The share of tax receipts levied from capital incomes fell while the share of receipts coming from taxation of wages, on the one hand, and mass consumption via the generalisation of and increase in VAT (indirect taxes notably affecting alcoholic drinks), on the other, increased.

In short, the state took from the workers and the poor to give to the rich (Capital). It was the exact opposite of a redistributive policy which should be the main preoccupation of the public authorities. The crisis of the public debt in the 1980s is intimately linked to the process of deregulation which went with neo-liberal globalisation. The colossal growth of public debt from the end of the 1960s to the beginning of the 1980s is linked to the development of the market in Eurodollars which constituted one of the first stages in the deregulation of the international monetary system and the exchange markets.

The strategic stakes of structural adjustment in the countries of the periphery
Structural adjustment policies began to be applied in the countries of the periphery just after the outbreak of the debt crisis in August 1982. They constituted the pursuit under a new form of an offensive which had begun 15 years previously. What was this offensive? It was the response from the governments of the North and the multilateral financial institutions at their service, starting with the World Bank, in relation to the challenge constituted by the loss of control over a growing part of the periphery. From the 1940s to the 1960s came Asiatic and African independence, the extension of the East European bloc, the triumph of the Chinese, Cuban and Algerian revolutions, the development of populist and nationalist policies led by the capitalist regimes of the periphery (going from Argentinian Peronism to the Indian Congress party of Nehru via Nasserite nationalism). New movements and organisations developed pell-mell at the international level, constituting so many dangers to the domination of the main capitalist powers.

The massive loans granted from the second half of the 1960s onwards to a growing number of countries of the periphery, starting with strategic allies (Congo under Mobutu, Indonesia under Suharto, Brazil under the military dictatorship...) and subsequently countries like Yugoslavia and Mexico, constituted the lubricants of a powerful mechanism for regaining control. It was to stimulate through target loans (the abandonment of nationalist policies) a better connection between the economies of the periphery and the world market dominated by the Centre. It was also about assuring the supplies of the economies of the Centre in the area of raw materials and combustibles. By putting the countries of the periphery progressively into competition with each other and stimulating them to reinforce their export models, it was possible to lower the prices of the products that they exported so lower the costs of production in the North (and increase the rate of profit there). In a context of a rise in the struggles for emancipation of the peoples and the Cold War with the Eastern bloc, it also helped reinforce the zone of influence of the main capitalist countries.

Without saying there was a plot on the part of the private banks, the World Bank and the governments of the North, it is nonetheless the case that an analysis of the policies followed by the World Bank and the main governments of the industrialised countries in the area of loans to the periphery was not devoid of strategic ambitions. [1]

The crisis which broke out in 1982 was the result of the combined effect of the fall in prices of the products exported by the countries of the periphery towards the world market and the explosion of interest rates. From one day to the other it was necessary to repay more with falling incomes. Hence, strangulation. The indebted countries announced that they were facing difficulties in payment. The private banks of the Centre immediately refused to grant new loans and demanded that the old ones were repaid. The IMF and the main advanced capitalist industrialised countries gave new loans to allow the private banks to recuperate their money and to stop a succession of bank failures.

Since this time, the IMF, supported by the World Bank, imposed structural adjustment plans. An indebted country that rejected structural adjustment was threatened with the ending of loans from the IMF and the governments of the North. One can say without fear of contradiction that those who proposed from 1982 onwards that the countries of the South had established this front, they would have been in a position to dictate their conditions to their creditors.

In choosing the path of repayment under the tutelage of the IMF, the indebted countries transferred to the financial capital of the North the equivalent of several Marshall plans. The adjustment policies implied the progressive abandonment of key elements of national sovereignty, leading to a growing dependence of the countries concerned in relation to the more industrialised countries and their multinationals. None of the countries applying structural adjustment has been able to support a lasting high rate of growth. Everywhere, without exception, social inequalities have increased.

The new loans granted by the IMF since 1982 have three objectives:
1. to favor the structural reforms imposed by adjustment;
2. to ensure the repayment of the debt contracted;
3. to progressively allow the indebted countries to have access to private loans via the financial markets.

What does adjustment involve?

Structural adjustment includes two main types of measures. The first to be applied are shock measures (generally, devaluation of the currency and increased rates of interest in the country affected). The second are structural reforms (privatisation, tax reform...).

The devaluation imposed by the IMF has regularly reached rates of 40 to 50%. It seeks to render more competitive the affected country's exports so as to increase the currency returns necessary to repay the debt. Another not insignificant advantage from the point of view of the interests of the IMF and the most industrialised countries: a fall in the prices of products exported from the South.

Negative effects: an explosion of the price of products imported on the internal market of the country concerned which can only depress internal production because the cost of production increases as much in agriculture as industry and crafts: they incorporate numerous imported costs in the production of goods as a result of the abandonment of 'autarchic' policies whereas the purchasing power of consumers stagnates (the IMF forbids any indexation of wages). Devaluation leads to an increase in inequality in the distribution of incomes as the capitalists who dispose of liquidities have taken care before the devaluation to buy foreign currencies. In the case of a devaluation of 50%, the value of their liquidities doubles.

Moreover, a high interest rates policy only increases the internal recession (the peasant or artisan who must borrow to buy the necessary factors of production hesitates to do so or reduces his production through lack of means) while allowing rentier capital to prosper. The IMF justifies these high interest rates by arguing that they attract the foreign capital the country needs. In practice, the capital attracted by high rates of interest is volatile and liable to flee at the least problem or when a better perspective for profit appears.

Other measures of adjustment specific to the periphery: the suppression of subsidies to certain basic goods and services and agrarian counter reform. In most countries of the Third World basic foodstuffs (bread, tortilla, rice...) is subsidised so as to stop big price reasons. It is often the case also for collective transport, electricity and water. The IMF and the World Bank systematically demand the suppression of such subsidies. Which leads to an impoverishment of the poorest and sometimes hunger riots.

In the area of land ownership, the IMF and the World Bank have launched a long term offensive which aims to abolish every form of community ownership. It is thus that they obtained the change in the article of the Mexican Constitution protecting communal goods (called ejido). One of the big projects of the two institutions is the privatisation of communal and state lands in sub-Saharan Africa.

Measures of adjustment common to North and South

The reduction of the role of the public sector in the economy, the reduction of social expenditure, privatisation, tax reform favourable to capital, the deregulation of the labour market, the abandonment of essential aspects of state sovereignty, suppression of exchange control, stimulation of pension savings by capitalisation, deregulation of trade,
From North to South: Debt crisis and adjustment plans

Encouragement of stock market operations... all these measures are applied throughout the entire world at various speeds according to the relationship of social forces. What is striking is that from Mali to Britain, Canada to Brazil, France to Thailand, the USA to Russia, one notes a profound similarity and a complementarity between the so-called 'structural adjustment policies' at the periphery and those called 'stabilisation', 'austerity', or 'convergence' policies at the Centre.

Everywhere, the crisis of the public debt has served as a pretext for the implementation of these policies. Everywhere, the repayment of the public debt represents an infernal chain in the transfer of wealth to the profit of the holders of capital. The markets of public debt securities (the public bond markets) set up by the main countries benefiting from financial globalisation and then imposed on other countries (usually without too many difficulties) are, even according to the International Monetary Fund (IMF), the keystone of financial globalisation.

Translated into clear language, it is very exactly the most solid mechanism set up through financial liberalisation for the transfer of wealth from certain classes and social layers and of certain countries towards the others.

Attacking the foundations of the power of finance supposes the dismantling of these mechanisms and thus the cancellation of the public debt, not only of the poorest countries, but also of all countries whose vital social forces reject government imposition of budget austerity on the citizens in the name of the payment of interest on the public debt: Francois Chesnais, 'Tobin or not Tobin', Paris, 1998, Ed. L'Esprit frappeur.]

Structural adjustment plans and other austerity plans constitute a war machine seeking to destroy all the mechanisms of collective solidarity (from communal goods to the system of pension by allocation) and to submit every sphere of human life to the logic of the market.

The profound meaning of structural adjustment policies is the systematic suppression of all the historic and social obstacles to the free deployment of capital to allow it to pursue its logic of immediate profit whatever the human or environmental cost.

It is necessary to break with this logic, abandon the structural adjustment policies wherever they are applied, and to rebuild overall mechanisms of control and expropriation of capital in a manner which gives priority to human needs. Hence the importance of collectively creating new networks of citizen struggle through North/South and East/West solidarities. These multiple resistances can open up a new emancipatory project.