

The Debt Crisis in Latin America

An Example of Unsustainable Development

by Ana Isla

Dans cet article, l'auteure démontre le terrible impact que la dette internationale a eu sur l'économie et les structures sociales de l'Amérique latine. Elle explique comment des agences internationales comme le FMI et la Banque mondiale ont déclenché une telle crise.

The overriding myth inherent in the lending practices of the International Monetary Fund (IMF), the World Bank (WB), and other proponents of state capitalism is that open, or free market economies are equivalent to or a necessary condition for democracy. In reality, capitalism, which is the dominant world order today, is based on exploitation and accumulation, determined by the demands of profit for a few privileged individuals, rather than by the needs of all the people, hardly a recipe for democracy. Both people and nature are used and abused as resources in this process. The implementation of this process, which was brought to the Americas in 1492 by Columbus, has destroyed hundreds of languages, nations, people, animals, and plants, as well as a large amount of traditional knowledge. It is a model of development that tends to eliminate all other social, economic, and political organizations, other ways of life, and other living forms on the planet. Everything that is not compatible with its demands is destroyed.

The foreign debt, for Latin American countries, is the most recent mechanism of exploitation by the North. It is the latest and most severe sign of the unequal terms of trade which were set up by the IMF, the World Bank, and General Agreement on Tariffs and Trade (GATT).

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American countries by these international institutions, there is a net transfer of wealth from the South to the North. The transfer is not just in the form of money, but also of national industries, banks, and other assets which are taken over as interest payment.

What is the international debt?

International debts are the loans received by governments, business or individual residents of a country from governments, commercial banks, agencies, and multilateral institutions, such as the IMF and the World Bank.

By 1981, Latin American countries had borrowed \$100.7 billion (us) from the commercial banks and the IMF. They paid back \$240 billion (us) in net financial transfers between 1982 and 1991; this figure does not include the deterioration in terms of trade (\$276 billion us) or the

billions in capital flight (\$300 billion us). According to the terms established by the financial agencies, however, they still owe \$450 billion (us) due to manipulation of exchange and interest rates by the United States.

This manipulation is the most important cause of the present debt crisis. It is the result of the United States' government's borrowing requirements and its adoption of monetarism as its economic strategy. According to this strategy, inflation is controlled by lowering the rate of growth in the money supply primarily by raising interest rates. At the end of the 1970s, the United States was a trade-deficit nation. It also had a net outflow of foreign investment. Since 1979, the Federal Reserve Board has embraced monetarism and initiated an increase in domestic interest rates. In 1982, the U.S. government tried to attract money from the rest of the world to bolster its failing economy, and interest rates went up from 2 per cent to 16.6 per cent. As other countries engaged in a desperate competition to keep the capital they needed at home, interest rates rose everywhere.

This rise in the interest rates has cost Latin America billions. The total interest payment increased by 360 per cent. Now, since 1981, most new loans were needed to pay the interest alone. This means that the money went straight back into the commercial banks and international institutions as interest on previous loans, on a country-by-country basis.

The debt burden has brought Latin American countries into submission, perpetuating a process of capital flight, impoverishment, and environmental destruction.

What is the structural adjustment program?

IMF aid has always come with a considerable number of strings attached, known collectively as a Structural Adjustment Program (SAP). Typically, a SAP includes the following elements: a) reductions in government expenditures on social programs such as health and education; b) reduction of consumption through restrictive labour policies, involving wage reductions and lay-offs; c) ending of subsidies/price controls for basic foodstuff; d) reform of other tax structures to redistribute wealth from lower income to higher income groups; e) elimination of import restrictions and foreign exchange controls, allowing capital flight to continue; f) devaluation to encourage exports; and g) prevention of government enterprises and encouragement of private foreign investment.

The IMF program dictates spending priorities to indebted nations. This means interest payments take priority over health, education, housing, and other development concerns. SAP is not only a human tragedy. It is an economic error of the most fundamental sort.

The IMF is supposed to be an institution that countries who are having financial difficulties can turn to for short-term financing. However, from the beginning, the IMF has been dominated by United States' interests and used as a tool to control trade and investment. It now works on behalf of commercial banks, with the G-7 acting as guarantors, because the banks are aware of the public relations disasters they create for themselves when they are directly involved in monitoring countries. This monitoring activity includes setting economic policies and making decisions about what proportion of export revenue is to be devoted to repaying the debt. Peru was their first monitoring experience in 1976. At that time, the banks' policies were publicly protested by Peruvians through national, regional, and local strikes which brought the economy to a standstill.

Now, the banks have distanced themselves from the whole process and the SAP is the guarantee that indebted countries will continue to pay. The degree of severity with which IMF conditions are applied, as well as decisions about who receives

credits and when they are granted, are determined by the political priorities of capitalist powers and Latin America is full of examples of U.S. political abuse of this sort.

Everyday life consequences of these policies

As a consequence of the debt, the "sovereign decisions" regarding economic, social, and environmental policies have been transferred to the realm of the creditors. This transfer is condoned by the Latin American governments. Latin American development priorities are formulated in western boardrooms for Western profit. Priorities are set that have no relevance at all to the needs of the people, the local environment, and the skills that local people could supply.

During the 1980s, Latin America was forced to produce items for export purposes only—items that are sold in the markets of the North. This policy, known as "export or perish," is having a perverse impact on the value of Latin American products in the global market. Because similar policies are pursued by the developed countries, the competition for the shrinking world market is fierce, and Latin American countries are not earning a fair price for their goods. They are, in addition, being prevented from exporting through tariffs, protectionism, barriers, weakened domestic economies, public assets, and the capacity of the state to regulate and control the private sector and the transnational corporations according to adequate domestic priorities.

The South also faces cutthroat competition because of the subsidies given by Northern governments to their own products. The only way for the Andean countries (Bolivia, Peru, Columbia) to survive is by growing coca as a "cash crop."

Latin America used to have universal health care and basic education, but now these services have been deliberately dismantled and are not accessible to the local population. All the social service provisions and needs of the people have been subordinated to debt repayment. The SAP dictates the national spending priorities and countries are forced to pay interest before health, education, housing, and other development concerns. Furthermore, national resources and government enter-

prises which might generate income for necessary social programs have been privatized.

As a consequence of the privatization, many benefits such as food subsidies, have been eliminated. In Peru, Bolivia, and Brazil, people are eating "Nicovita" (fish-meal flour used for fattening chickens) and wet newspaper, not because they are not producing food, but because they are forced to sell the food they produce to the North. Half of the population is illiterate or semi-literate, cholera and other diseases are spreading, drinking water is in short supply, and life expectancy is very low.

The 1980s debt crisis has prevented poor women from having access to the labor market because of lack of education and other discriminatory policies. In cases where poor women have managed to enter the workforce, precarious conditions prevail, with low wages, no legal protection, and no social security.

Structural adjustment policies have added to the already heavy work load of women. In addition to work outside the home, they are obliged to participate in community activities such as soup kitchens, "glass-of-milk" committees, mothers' clubs, exchanging work for food, etc., if they are to have any hope at all for the survival of their families. Women have had the greatest adjustment to make to the loss of social services, and this loss represents a high cost to them and their families.

The impossibility of coping with these burdens has resulted in millions of street children, who are deliberately and systematically assassinated in Brazil, Colombia, and Guatemala.

As a result of stabilization policies, Latin American countries have become victims of "stagflation," a combination of economic stagnation and inflation. With successive devaluation, in order to make the country's exports more competitive, the purchasing power of wages and salaries is weakened. Per capita income has fallen by 15 per cent, and 44 per cent of the work force is estimated to be unemployed or underemployed. In Peru, per capita monthly income is \$41, 70 per cent of the workforce is unemployed or underemployed and, according to the U.N., 10 million are living on only 10 centavos per day.

Inflation caused by the SAP has reduced the value of local currency, and local authorities have lost control of their own monetary policies. For example, in Peru during the 1980s, inflation rose by 6 million per cent. Argentina and other countries have been forced to change their currency because inflation undervalued the old currency. Because the value of local currency is so low, the us dollar is used in most transactions.

Latin American governments have been forced to assume responsibility for debt acquired by private corporations and local banks (often subsidiaries of transnational corporations based in the North). This obligation doubles the debt. Furthermore, the private sector and transnational corporations are entitled to subsidies and tax concessions, but this does not encourage investment; instead, there is capital flight.

The adverse effects of U.S. policies on Latin America during the 1980s were not confined to rising debt charges. The demand for capital in the United States acted like a vacuum. The Latin American elites began to send money abroad in ever increasing amounts, encouraged by high interest rates. Prior to 1987, \$270 billion was removed from Argentina, Mexico, Brazil, Venezuela, Peru, and Colombia. Argentina sent \$20 billion, Mexico deposited \$14 billion in Eurocurrencies and invested \$30 billion in US real estate, and Venezuela sent \$6 billion abroad. This capital, which left the country, still appears on the commercial banks' books as loans on which interest is due. So, Latin American countries are paying off a debt on money that is in western banks being used to make more profits.

Faced by debilitating foreign debt, rising interest rates, adverse terms of trade, and interrupted financial flows, many Latin American countries are overusing their resource base, exporting material resources and ignoring environmental degradation. Landowners, affiliated with the transnational corporations, are destroying the Amazon (rain forest), replacing ordinary farms with huge grain and exotic plant farms for export use to repay the external debt.

Another destructive form of debt repayment is cashing in on natural resources (swapping debt for nature), in order to help commercial banks to sell their loans



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at a price above the secondary market norm, thanks to an artificial demand created by international development agencies.

Many Latin American countries have become the dumping ground for nuclear, industrial, and human wastes from the richer countries. Supported by the World Bank, the G-7 countries are exchanging debt for toxic waste dump sites. For example, Venezuela receives Italy's garbage, Argentina accepts France's garbage, Peru accepts United States' garbage.

Massive deforestation is changing the whole world's weather system, turning storms, floods, and droughts into major disasters. For this reason, concern for the environment cannot be separated from international debt.

The World Bank finances ecologically destructive projects in Brazil. For example, the Ticuru dam-hydro project in Amazonia cost \$8 billion, involved the flooding of 216,000 hectares (540,000 acres) of forest land, and contaminated the forest with dioxin. The forest was defoliated and native people were displaced, some of them killed. A Japanese iron ore project in Grande Carayas is causing the same destruction. It is costing more than \$62 billion. The destruction is not confined to Brazil. Other indebted countries, such as Peru, Bolivia, and Colombia, are undergoing the same pattern of degradation.

There is a direct link between the conditions attached by the IMF/WB to its financial assistance and the existence of dictatorships. IMF/WB policies are so destructive to people that their implementation requires a simultaneous imposition of an anti-democratic political agenda. This is implemented by the national military institutions, often involving intimidation by means of torture and disappearances.

The IMF demands drastic reductions in social spending, but defense and arms budgets remain untouched. The increasing militarization of the continent has been sustained by outside financing.

The structural adjustment and militarization of Latin American countries has resulted in hundreds of thousands of deaths and murders: 25,000 in Peru, 40,000 in Argentina, 100,000 in Guatemala, 75,000 in Salvador. This is the main reason why millions of citizens from the South have been forced to be-

come refugees and displaced persons in the countries of the North.

The Latin American population is 420 million. 183 million (44 per cent) live in extreme poverty with no roof over their heads, 124 million (31 per cent) are living in poverty. Their exclusion from economic activity means that free trade with Latin America will concentrate on the 25 per cent of wealthy Latin Americans.

The North American Free Trade Agreement (NAFTA) will not only reduce tariff barriers, it will further restrict the search for alternative economic models. NAFTA is a way of making the structural adjustment programs permanent in Latin America and the Caribbean, and of extending these conditions to areas covered by the agreement that were not previously subjected to these policies.

All the Latin American countries are paying interest despite a desperate internal situation. The following example shows why they do not default. In 1985, Peru declared that it would pay no more than 10 per cent of the value of its export revenue on servicing the interest of the external debt. At the time of this declaration, it was paying 60 per cent of its value of export revenues. The international in-

stitutions punished Peru. The IMF declared Peru "ineligible" for further loans; the commercial banks (through CitiCorp representing 287 commercial banks) threatened to place an embargo on Peru's assets abroad, and destroy foreign trade potential by withdrawing Peru's trade credits. After that, the country was reduced to ruin and people's living standards disintegrated. This is how creditors enforce repayment.

What can you do?

a) Join the international campaign for cancellation of the debt.

b) Oppose all debt conversion measures that exchange debt for nature, genetic material, industrial or nuclear waste sites, etc.

c) Put pressure on the U.N. governments and commercial banks to organize a conference on foreign debt and related issues, attended by creditors, debtors, social movements, and NGOs.

d) Get involved in the boycott of the largest and most powerful banks, which benefit from environmentally and socially destructive activities, by withdrawing your funds and refusing to do business with

them. There are alternative institutions in Canada such as credit unions that make just investment decisions.

e) Work for the international recognition of ecological debt and commit to the recognition of the ecological creditors (ethnic groups, communities, countries, and regions affected by the exhaustion of resources), the ecological debtors (responsible for the environmental and social deterioration) and the necessity of applying measures of ecological adjustment (modification and changes in the present patterns of production and consumption) so that actions of devastation and contamination do not continue to be taken.

In conclusion, cancellation of the debt and reparation for the damage caused would give oppressed people a chance to reorganize. However, cancellation itself will not solve the problems of inequity and injustice unless the systemic and institutional (i.e. trade, financial, production, consumption, etc.) patterns are changed.

Ana Isla is a Peruvian economist and active member of Women for a Just and Healthy Planet in Toronto.



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European Women's Caucus: An Agenda Towards Sustainable Livelihood

As women living in Europe, our starting point is to make clear the links between our world's ecological crisis and male-development. We recognise the need to combat actively negative forces in our societies which hinder participatory democracy, cultural integrity and a healthy environment.

We must bring our gender perspective and our women's common sense to seek an alternative to the present-day economics. We as women must understand the economies of every day, what it means to run the household, to care for our local environment as well as taking our place in the political and social sphere. We need to further empower ourselves and our knowledge by demystifying economic science: the language which puts monetary value to every human interaction, which "values" nuclear testing while ignoring women's unpaid work in the home; the language which speaks of free trade while putting the severe restrictions on world trade; the language which does not count the essential work of families in the so-called "informal sector;" the language which puts people's needs into impersonal statistics that ignore our specificities.

We, coming from the region which saw the birth of modern economic theory, should contribute to the search for a gender-literate, people-and-nature-respecting economics which is a useful tool for us all, not as the tool to serve the greed of the very few.

We challenge the hypocrisy of the free market system which is not free, but privileges those who are rich and powerful, oppresses women without recognizing their values and devastates our natural resource base. We demand the recognition and reward of the contribution of all women in the economic system, and that the right to work and to equal pay be put into practice. We refuse the attempts to cost and to put monetary value to our environment.

We challenge development as the concept of economic growth and look instead to a sustained livelihood in which our environmental, social, cultural health and well-being are the economic goals.

Our European countries, our corporations, our banks should reduce or cancel the debt of the Southern countries and thus begin to make good the reparations for colonial theft. Debt, negative financial flows, increasing homelessness, mass migration and chronic food shortages leading to grand-scale environmental disasters are all too clear proofs that we have much to repay the South.

Excerpted from The Women's Action Agenda 21.

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