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# ODIOUS DEBT

## JUBILEE 2000 vs THE INTERNATIONAL CREDIT CARTEL

BY DAN ARMSTRONG

*Imagine a wondrous new machine, strong and supple, a machine that reaps as it destroys. It is huge and mobile, something like the machine of modern agriculture but vastly more complicated and powerful. Think of this awesome machine running over open terrain and ignoring familiar boundaries. It plows across fields and fence rows with a fierce momentum that is exhilarating to behold and also frightening. As it goes, the machine throws off enormous mows of wealth and bounty while it leaves behind great furrows of wreckage. It is sustained by its own forward motion, guided mainly by its own appetites. (And) it is accelerating... This machine is modern capitalism driven by the imperatives of the global industrial revolution.*

—WILLIAM GREIDER (from "ONE WORLD, READY OR NOT")

There is a war being waged this very moment. A global civil war. North against South. It may be that the bombs are few and the gunfire sparse, but the casualties are high. It is a social war with a trickle down of debilitating debt from the wealthiest to the poorest. The war machine is modern capitalism. Driven by the imperative that money must make money. The war rooms are offices on Wall Street, the financial districts of London, Berlin and Tokyo. The field officers are stock brokers, financial planners, bankers and currency traders. It is subtle. It is polite. It is silent. It is war just the same. The Third World War.

The 1st World led by the Group of Seven (G7)<sup>1</sup> has funded 3rd World development over the last forty years through a variety of commercial, multilateral and bilateral loans. In the ideal, these development loans were to provide the wherewithal for the LDCs (Lesser Developed Countries) to build infrastructure, social programs, schools, raise health standards, a viable economy and, eventually, a place in the global market. What we have today is a gross perversion of that ideal.

Presently tiers upon tiers of interest payments on these development loans swarm like locust across the globe, eating the heart out of three-quarters of the world — starting with the weakest and youngest. Every 3rd World country labors under debt — for most, it is vast crippling debt. Generations of loans and restructuring programs enslave whole populations to poverty, strip social programs of funds and place needless rush on the harvest of natural resources. Development has occurred, but piecemeal, and causing in more instances than not, as much devastation as progress. Something has gone wrong.

The numbers have a limited relevance. Over a period of time, relative values of dollars lose sense, but the compounding nature of the problem is revealed by a few bulk figures — that multiply every few years. In 1974, for instance, the world's LDCs' debt totaled \$135 billion. By 1980, it had grown to \$567 billion. Between the years of 1980 and 1992 indebted LDCs paid \$1.6 trillion to their creditors. In that same time the total LDC debt rose from \$567 billion to \$1.4 trillion. Similarly, between 1982

and 1996, the combined Latin American and Caribbean region paid out \$739 billion in debt servicing — more than its entire debt in total, and yet that debt continued to grow. All that is ever paid is interest and service charges. The principle sits like a hungry beast behind the treasury doors gobbling up every dollar of export revenue and slurping down funds targeted for needed social services. Real economic growth has stagnated and the emerging 3rd World markets flounder in the global economy like lifeboats around the *RMS Titanic*. Today the LDCs' debt tops the \$2 trillion mark and continues to grow like a virus. For better or worse, some kind of change is in the offing.

Sympathy for this predicament is hard to find among the fortunate. From the perspective of the 1st World, these 3rd World financial problems look like bad management, careless spending and waste. But the situation is more complex than corrupt government officials or self-interested dictators siphoning money from these loans to build private mansions or into Swiss bank accounts. As much to blame are the banking practices of the last 25 years and the rapacious appetite of capitalist expansion.

Economic growth is everything to Western finance. Despite the seeming benevolence of the G7's gift of development to the 3rd World, it is naive to imagine that the capitalist machine is driven by anything but self-interest and profit. A margin here, a margin there, percentage gains make the capitalist world go 'round. In the eyes of commerce, the development of the LDCs is primarily the expansion of markets because the growth-based economy must forge new frontiers. That is, money looking for ways to become more money.

Capitalization through loans and credit is the universally accepted method of 3rd World development. It has been going on in one form or another since the end of the Second World War. Records show, however, that once a loan is re-serviced and economic conditionalities are imposed, things get very tough on the debtor country. Only a selected few of the developing nations (South Korea was once considered one of these) have been able to escape the initial pitfall of loan reconstruction and then it's economic quicksand. It's true — examples of failure greatly outnumber the successes. Development is an economic tightrope in the free market arena — especially if you are entering the G7 monetary system from the outside.<sup>2</sup>

Credit has been extended and extended again to the Philippines, Indonesia, Malaysia, Mexico, all of South America, and the sub-Saharan African nations. In a pattern that began when the United States established the Development Loan Fund in 1957 and Secretary of State John Foster Dulles announced that all further U.S. foreign aid would be as a loan not as a grant, over and over again developing countries have fallen victim to the international credit card cartel's ponzi-like system. Old loans threatening to default are invariably propped up by new loans that are saved yet again by another new loan.

Because the principle is usually more than 90% "synthetic," there is no real limit to how much "credit money" can be created to sustain timely loan payments. After many

generations of loan restructuring, which is frightfully common, something of the principle of the original loan gets lost to abstraction — only the steady demand of interest remains real. The bank cares little of the principle anyway. All but a small portion of that is merely pixels on a computer screen. It is the loan fee and the interest payment that makes the wheel go 'round.

The international credit cartel had a firm grip on the LDCs by the late 1960s, but the loans seemed to be working then. There was development. In the early 1970s, however, an increasing Vietnam War debt forced the United States to take the dollar off the gold standard. In response to this, the Organization of Petroleum Exporting Countries (OPEC) raised the price of crude oil 70% because oil prices were set in American dollars — which had begun rapid inflation when floated against the other currencies of the world. This resulted in a surge of dollar influx to the oil exporting countries, but at a reduced dollar value. So, as part of the agreement made with the G7 when OPEC raised its prices, the OPEC profits were invested in special high interest 20 and 30 year certificates of deposit in American banks.<sup>3</sup>

Huge portions of this OPEC money, multiplied by the methods of fractional reserve banking (a \$1 billion reserve expands into more than \$30 billion in loans!), were then loaned by the American banks to developing countries all around the world. (This was known as "petro-dollar recycling" because these loans would then allow developing countries to afford oil at the new price.) In many cases, because the money was there to be loaned, eager bankers offered sums well beyond the reasonable carrying capacities of the borrowing countries. Ten years down the line, as sliding interest rates doubled and tripled in an effort to arrest an inflating U.S. economy, the most indebted of these nations, beginning with Mexico, were pushed to the edge of default on their loans. Such were the size of these loans (in excess of \$800 billion then) and the extent of their diversification into other banks and holding companies, the world financial community, in its desperately complex interdependence, could not allow these LDC loans to fail — for fear of bringing down some large and very important banks. In other words, they needed those LDC interest payments to keep the whole system afloat.

Noted journalist William Greider details this story in his book on the Federal Reserve Bank, *The Secrets of the Temple* (a *Los Angeles Times* book prize winner in 1988):

*In a formal sense, this was the starting point for what became known as the international debt crisis — actually, a continuing series of crisis points, as one country after another approached the brink of insolvency, then appealed for relief from the Fed, the international lending agencies and private banks. Within the next year 14 other nations would undergo the same trauma that Mexico experienced in August of 1982 — accepting*

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