Just as in Kosovo

ANN PETTIFOR[1]

"In developing countries, billions in reserves have been bled out of central banks, billions in asset values have been destroyed, and millions of workers have fallen into poverty and chronic insecurity. Global capital markets have acted as gigantic engines of inequality, transferring wealth from the weak to the strong, from debtors to creditors, wage earners and taxpayers to the holders of paper claims, from productive to financial activity."

Kari Polanyi Levitt in
"The Contemporary Significance of The Great Transformation" 1999

Introduction

We live in a global economy dominated, as it was in the 1920's, by international finance capital. According to one estimate, before 1970, trade accounted for 90% of all international transactions and capital flows for only 10%. Today, despite a vast increase in global trade, that ratio has been reversed. Ninety per cent of transactions now are accounted for by financial flows not directly related to trade in goods and services.[2] Most of these flows take the form of highly volatile stocks and bonds, investment and short-term loans. By 1992, financial assets from the advanced OECD nations totaled USD 35 trillion – twice the economic output of the OECD. McKinsey and Company believed that the total financial stock would reach USD 53 trillion by the year 2000 – "triple the economic output of the OECD economies".[3]

These changes to the global economy – the shift from the dominance of industrial capital to finance capital – did not come about "naturally" or spontaneously. They are the result of deliberate policy-making – driven first by the City of London and the British government, and later by Wall St. and the US government.[4] Both governments use the IMF as an agent for implementation of effectively deflationary policies, whose ultimate purpose is not to reduce poverty – but always to protect the value of creditor assets.

In the 1920's similar deflationary economic policies were applied to justify the dismissal of public servants, to suppress wages and maintain unemployment. The most important of these policies was the stabilisation of currencies, fixed in terms of gold, to guarantee debt service to foreign bondholders. Much the same happens today. Instead of the gold standard we have currencies pegged to the dollar, or even outright "dollarisation". Currencies are once again stabilised to guarantee debt service to foreign bondholders and other creditors. The IMF, agent of all international creditors public and private, intervenes in the market and imposes a range of policies (SAPs) whose real purpose is to defend the value of the assets of international creditors and lenders.

Central to our planned global economy dominated by finance capital, is the powerful lever of debt. Debt acts as the key mechanism for the transfer of wealth from weak to strong; from debtor nations to international creditors; from taxpayers and wage earners to the holders of paper claims; from productive to financial activity.[5] Without the leverage of debt, IMF policy makers would not be able to impose policy changes necessary to ensure such transfers.

1 Program co-ordinator, Jubilee Plus - supporting economic justice campaigns worldwide. A project of the New Economics Foundation (NEF). Website: http://www.jubilee2000uk.org

2 In James A. Kelly, *East Asia's Rolling Crises: Worries for the Year of the Tiger*. Center for Strategic and International Studies (CSIS) Pacific Forum, Pacnet 1, 2 January 1998, quoted in "Asian Financial Crisis: An Analysis of US Foreign Policy Interests and Options".

3 From William Greider, *One World, ready or not*, Simon and Shuster, 1997 p. 232.

4 The role of British and American policy in freeing financial markets from national control is documented in a study by Eric Helleiner – "States and the Reemergence of Global Finance: From Bretton Woods to the 1990s". Ithaca and London: Cornell University Press, 1994.

5 Polanyi Levitt, quoted above.

Debt as a constant threat to economic stability and human rights

As the year 2000 drew to a close, the world of international finance held its breath, concerned that Argentina would default on its short-term debt, thereby precipitating what the *Financial Times* called "a general loss of confidence".[6] Argentina's predicament is serious, despite her government's widely acknowledged achievement of fulfilling creditors' conditions. Social tensions are rising, and workers in Argentina called a general strike at the end of 2000, to protest the impact of the debts on the economy, in particular the deflationary austerity conditions set by foreign creditors. Argentina's currency is artificially inflated to equal the value of the US dollar – thereby maintaining the value of creditor assets, while impoverishing Argentineans.

At about the same time Argentina was teetering on the brink of default, in another part of the international financial forest, 3,000 employees of the Thai Petrochemical Industry (TPI) disrupted a meeting in Bangkok. Foreign creditors were due to have obtained 75% of the equity in TPI and effective control of this key Thai industry. These creditors included the World Bank's International Finance Corporation, Chase Manhattan and the US government's Exim Bank. Protesters carried placards with slogans such as "World Bank No Thanks" and "Yankee Go Home".[7]

Simultaneously in Africa, the Zambian finance minister Mr. Katele Kalumba, was protesting a proposal for debt "relief" negotiated by international creditors under the IMF and World Bank's Highly Indebted Poor Country (HIPC) initiative. After the "relief" offered by her international creditors, the World Bank predicted that Zambia would transfer USD 235 million in the year 2002 in debt repayments to her creditors, nearly USD 100 million more than she can currently afford to pay.[8] Zambia is a country in which four-fifths of the population live on less than USD 1 a day; one million of the nine million inhabitants suffer from HIV/AIDS; life expectancy is only 40 years, and 13% of children are orphaned – the highest rate in the world.[9] In 1999 the Zambian government spent USD 123 million a year on the health of its people. USD 137 million was transferred in the same year to foreign creditors.

These examples demonstrate the extraordinary power of foreign creditors over poor sovereign debtors. The IMF obliges indebted governments, regardless of democratic mandates, to prioritise foreign debt service payments over domestic spending.

In the west, concern about the domination of finance capital over poor countries has been growing, amplified by the international Jubilee 2000 movement. The campaign's guiding principles were grounded in Judaic and Christian biblical ethics on human rights, opposition to usury, and the need for periodic correction to imbalances – the Sabbath and Jubilee principles. These principles and ethics have, in turn, resonated with Muslims and other peoples of faith and with those of no faith at all.

6 *Financial Times* editorial, 18 November 2000.

7 *Financial Times* 17 November 2000.

8 OXFAM report.

9 Jubilee 2000 press release 21 November 2000 and World Bank HIPC documents on Zambia, World Bank September, 2000.

The *International Herald Tribune* noted in November 2000 that Argentina's *"various misfortunes … are not of its own making"*.[10] Investors have been eager to lend, greedy for the high rates of return on their investments to "emerging markets". The Argentinean government, while perhaps not always acting wisely, has faithfully followed the advice (and interests) of her creditors, and maintained a permanently fixed exchange rate against the dollar, securing stability for investors who wish to remove their funds. Exports (which raise revenues for debt repayments) are growing rapidly. Inflation is low and government debt and the budget deficit are only 50% and 1.9% of national income respectively. But Argentina has a significant proportion of short-term debt, serviced at rates of interest ratcheted upwards by nervous creditors. The possibility of default is real. Investors are looking over their shoulders to the IMF – an institution that provides protection to creditors while leaving *"taxpayers of major industrial countries to pick up the bill, and banks to pocket the profits."*[11]

There has been a range of bailouts since Mexico's dramatic default in 1982. From the autumn of 1997 until October, 1998, the IMF was forced to bail out short-term lenders by pouring USD18 billion into Thailand, USD 43 billion into Indonesia, USD 57 billion into South Korea and USD 23 billion into Russia – just over USD 140 billion. This emergency financing almost bankrupted the Fund. US congressmen protested these bailouts by withholding a critical USD 18 billion to be used to leverage further loans from other governments. President Clinton appealed to US congressmen to approve the allocation of USD 18 billion. *"There is no excuse for refusing to supply the fire department with water while the fire is burning*", he argued. But as the *Wall Street Journal* argued, "*the IMF has been treating fires with gasoline, rather than water."*[12]

By late October 1998, Congress had caved in. In early November, there were rumours that the IMF was using its new loans for a further USD 45 billion package for Brazil. In total, bailouts and rescues transferred USD 200 billion of wealth from OECD taxpayers to international creditors and speculators – in just over a year.

In October, 1999 Ecuador became the first ever country to default on so-called Brady Bonds – private sector bonds that repackaged debt from the Latin America crisis of the 1980s. The default was rather dramatically announced at the IMF annual meetings that year, with Fund staff making clear, for the first time, that the institution was now reluctant to bail out investors.

While Ecuador's bondholders were disciplined, there has been no indication as yet that the IMF will treat other international creditors in the same way. On the contrary, US Treasury Undersecretary for International Affairs Timothy E Geithner promised to provide the IMF and World Bank with USD 90 billion of new resources and new instruments for emergency lending and broader risk sharing in "exceptional circumstances",[13] thereby providing an incentive to speculative and reckless behaviour and protection from the losses and risks of such behaviour. In the event of these "exceptional circumstances" the debtor government will be left with a heavy burden of new debt. Ultimately, the burden of losses and liabilities will fall on local taxpayers, in particular the poor.

Facing the reality of insolvency

As far back as 1776, Adam Smith asserted that "*when it becomes necessary for a state to declare itself bankrupt, in the same manner as when it becomes necessary for an individual to do so, a fair, open and avowed bankruptcy is always the measure which is both least dishonourable to the debtor, and least hurtful to the creditor*".[14]

There is little that is fair and open about procedures to re-negotiate poor country debts today. For years the secretive Paris Club – a cartel of sovereign creditors – has dominated debt-rescheduling processes, hand-in-hand with the closed and bureaucratic IMF.

The Paris Club began life in 1956, to consider Argentina's external debt. It is an informal body representing all official and private creditors, including all OECD governments, the IMF, World Bank and other multilaterals. It has no legal status, yet it has tremendous power over poor country debtors. In the words of a former Secretary, Mr. De Fontaine Vive *"the Paris Club is not an institution, it's a non-institution. There is no charter and there is no manual"*, he says proudly.[15] There are unwritten rules, however, and the most important of these is that the IMF and World Bank as official creditors are "preferred creditors" – they must always be paid, above and before other creditors, *i.e.* private creditors. In other words creditors are treated unequally by this "non-institution". So in the case of the Ecuadorian default, private creditors took "a haircut" or hit; while the IMF and World Bank continued to collect debts. The absence of a legal framework for the Paris Club ensures effective creditor control over lending, re-scheduling, conditionality, cancellation of debts and new loans.

Today Professor Kunibert Raffer of the University of Vienna, Professor Jeffrey Sachs of Harvard and Oscar Ugarteche, former professor of international finance at the Catholic University of Peru, are in the forefront of calls for an open, fair international insolvency procedure for sovereign states. Raffer points out that *"under any insolvency procedure… human rights and human dignity of debtors are given priority over unconditional repayment."* He argues that *"debtor protection is one of the two essential features of insolvency. The other is the most fundamental principle of the Rule of Law; that one must not be judge in one's own cause… like all legal procedures insolvency must comply with the minimal demand that creditors must not decide on their own claims"*[16]

Raffer notes that *"insolvency relief is not an act of mercy, but of justice and economic reason"*.[17] The Bretton Woods Institutions (BWIs) he argues *"take decisions, but refuse to participate in the risks involved".* He demonstrates that decision-making by the BWIs *"is not only delinked from financial responsibilities, their errors may even cause financial gains. … If this link [between economic decisions and financial risks] is severed – as it was in the Centrally Planned Economies of the former East – efficiency is severely disturbed. The striking contrast between free-market recommendations given by the BWIs and their own protection from market forces must be abolished."*[18]

Prof. Jeffrey Sachs calls for an international 'standstill' mechanism that would provide debtor-in-possession financing and a comprehensive and timely workout of the debts.[19] Sachs notes the parallels between Macy's in New York and Russia in 1992 – both of which went bankrupt in the same month (January, 1992). Macy's filed for protection from her creditors under Chapter 11. Russia had no protection from her creditors; on the contrary, they moved in and took over "the shop". Macy's received an immediate standstill on debt servicing; and within three weeks of filing for bankruptcy was able to arrange a new loan of USD 600 million from several New York commercial banks as part of court-supervised, debtor-in-possession financing. Russia had no such luck! There was no standstill and Russia government had to wait over a year to receive from the IMF and

10 IHT 21 November 2000.

11 *Business Week*, 11 October 1999, p. 72.

12 *Wall St. Journal* 12 October 1998.

13 "Resolving financial crises in emerging market economies" Treasury Undersecretary for International Affairs Timothy E. Geithner: remarks before the Securities Industry Association and Emerging Market Traders Association, NY 23 October 2000.

14 "Wealth of Nations" 1776, quoted by Kunibert Raffer. See below.

15 Interview in *Euromoney*, September 2000.

16 "An International Insolvency Procedure for Sovereign States" by Kunibert Raffer. Paper presented at the Colloquium "Legitimacy of Debt Repayment" of the *Observatoire de la Finance*, Geneva 24-26 September 1999 – forthcoming in the conference volume.

17 As above, p. 2.

18 "What's good for the United States must be good for the World – Advocating an International Chapter 9 Insolvency" – Kunibert Raffer, paper to the Kreisky Forum Symposium, Vienna September 1992, p. 9.

19 Jeffrey Sachs, "External Debt, Structural Adjustment and Economic Growth" International Monetary and Financial Issues for the 1990s, UNCTAD Vol IX.

World Bank as much money as Macy's had been able to borrow in three weeks. This politically weakened the Russian government, led to the ousting of reformers, and threw Russia's stabilisation programme off track.

Raffer's call for a system of independent mediation between sovereign debtors and their international creditors – widely amplified by the Jubilee 2000 movement - has recently been supported by the Secretary General of the UN, who in September, 2000 submitted a report to the General Assembly,[20] calling for *"an objective and comprehensive assessment by an independent panel of experts not unduly influenced by creditor interests, while the existing processes are under way. … There should also be a commitment on the part of creditors to implementing fully and swiftly any recommendation of this panel regarding the writing-off of unpayable debt."*[21]

The relationship between state and citizen

Partly as a result of legal protection and IMF financial protectionism, the international financial system operates well for corporations, shareholders and investors, who are not obliged to face the full wrath of market forces. Shareholders and investors have fought hard over centuries, to achieve protection from the unlimited liabilities that may be incurred by the directors of companies. There are of course, exceptions, but they are few. All over the world shareholders now enjoy the legal protection of "limited liability".

Not so the citizens of indebted nations. As things stand, the people of debtor nations bear unlimited responsibility for liabilities incurred by their "boards of directors" – sovereign debtor governments. No wonder we encounter resistance in Zambia, demonstrations in Bangkok and strikes in Argentina.

A concept of "limited liability" for citizens of indebted nations has to be worked out and agreed internationally. States cannot hold their people responsible for the unlimited liabilities caused by foreign debts, negotiated in secret, and often corruptly. If debtor nation states could be compared to corporations and if their governments were to be seen as boards of directors, then external creditors could be put on notice that the shareholders – citizens or stakeholders – have limited liability for loans made recklessly.

Conclusion: humanitarian intervention to protect human rights?

The Universal Declaration on Human Rights, Article 3 asserts that "everyone has the right to life, liberty and security of person". Article 22 makes plain that "everyone as a member of society, has the right to social security and is entitled to realisation, through national effort and *international co-operation* and in accordance with the organisation and resources of each state, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality". A similar set of rights is set out in the UN Charter.

NATO went to war in Kosovo in the name of humanitarian intervention. The legality of the armed intervention was challenged; but the fact that massive denials of human rights can undermine a region as well as a country, is not in dispute. A British Foreign Office justified NATO's air campaign on the grounds that it would prevent an overwhelming humanitarian catastrophe.[22] At the time of the first air action by NATO in Kosovo, 65,000 people were estimated to have been made homeless. This gives us some yardstick by which to judge future action or inaction for "humanitarian intervention" to defend human rights.

The UN estimates that 7 million children die each year, because money that could be spent on health is instead diverted to foreign creditors in the form of debt repayments.[23] The example of Zambia above, demonstrates the direct impact of debt on the life-chances of millions of people infected with HIV. The Food and Agriculture Organisation of the UN has detailed the impact of the debt crisis of 1997 on the people of Indonesia. The debt crisis added 10 to 20 million people to the ranks of the undernourished in Indonesia alone, just one of the five nations affected by the reckless lending decisions of foreign creditors in 1997.[24] These numbers overshadow the 65,000 whose human rights are accepted to have been denied in Kosovo.

Humanitarian intervention to defend the human rights of a billion people in indebted nations would result in a transformation of the global economy. Intervention would challenge the dominance of finance capital – and creditors would invariably be disciplined.

There are many ways of disciplining finance capital – most effectively through capital controls; by extending limited liability to sovereign states; by introducing an international insolvency law that would allow states to "seek protection from their creditors"; and by the introduction of a Tobin Tax. The most urgently needed discipline, however, is massive cancellation of the unpayable debts of the poorest countries. Decisions about what is "unpayable" should not be decided by creditors – but by independent boards of arbitration overseen by, and held accountable to, the citizens of debtor nations.

Just as in Kosovo, so there is now a clear, ethical and economic case for humanitarian intervention in indebted nations – to subordinate the interests of finance capital, and restore human rights to at least a billion innocent people. ■

Jubilee Plus
<apettifor.jubilee@neweconomics.org>

20 Recent developments in the debt situation of developing countries – Report of the Secretary General; 26 September 2000, Agenda item 92 (c).

21 As above, Paragraph 71.

22 Taken from "NATO's military campaign over Kosovo, 24 April – 10 June 1999" by Denis Krivosheev, 5 March 2001, unpublished.

23 Reference to 1997 UNDP report.

24 FAO, *The State of Food Insecurity in the World*, 1999.