8 The External Debt*
Ricardo Alagia

INTRODUCTION

The so-called external debt crisis involves those developing countries with a chronic imbalance in their external sector or with fundamental shortcomings in their system for generating productive capital. Besides the social and political problems caused directly or indirectly by the external debt, so too a vicious circle of domestic economic problems is generated including inflation, insufficiency of internal savings for investment in productive facilities and resulting obsolescence of these facilities. The set of financial demands which capital-exporting creditor countries are able to impose on the chronic debtors in the developing world constitute a modern, efficient and insidious tool for domination and dependency.

The external debt crisis threatens social peace, economic development and political stability of the Third World debtors, and at the same time draws in governments of both debtor and creditor countries even when loans were made by the private sector. When developing countries have not been able to pay the principal and/or the interest of the external debt, governments of developed states have had to become involved as well to forge at least temporary solutions. This impasse did not occur simply through greed or imprudence of developing states in incurring massive loans. Capital-exporting countries competed with one another to loan to developing countries with pressing needs and often offered enticing, easy loan conditions but with the potential for high interest rates. The expectation was of course that money could be easily recycled from North to South and that lucrative profits could be made.

General guidelines governing debtors have included recipes for financial stability associated more or less closely with the International Monetary Fund (IMF). These guidelines embody economic common sense as formulated in Western developed countries, but they are often inappropriate for developing countries if inflexibly applied. In order to achieve short-term financial goals, debtors are to

* Translated by Michael A. Morris.

M. A. Morris (ed.), Great Power Relations in Argentina, Chile and Antarctica
© Michael A. Morris 1990
apply recessive policies including reining in inflation, restricting internal consumption, and cutting public spending and subsidies. Such measures raise the cost of living and impose often harsh conditions on long-suffering populations without necessarily remedi ing the economic dilemmas of a wide variety of debtors. The domestic market is to be liberalised for international competition with exports to be encouraged through a variety of measures, although debtor states are faced with increasing protectionism for their products especially when competitive with those of developed states. Reserves are to be accumulated for maintaining a tranquil monetary system, regardless of the constraints this may place on underprivileged classes. Finally, the political system is to be stable, which all too often has masked an affinity for right-wing and/or military governments.

For supporters of such an approach, problems of the internal economic structures of Third World debtor countries block satisfactory adjustment measures and lasting stabilisation. It follows from such a view that debtors should orient their economies towards new forms of production, consumption and trade at the domestic, regional and global levels. In effect, this is the modern version of the international division of labour decreed several centuries ago by the classical economists, although this time the governing formulas assign a dominant role to developed states while relegating developing ones to a subordinate, dependent one.

On political as well as economic grounds, these solutions and preferences usually associated with the North have not been appropriate for the South. Self-interest and misunderstanding have fused in the formulas conceived by and for the North. The debt crisis is instead a North–South problem and not just one which can be resolved by developed countries disciplining allegedly wayward developing ones. Politicisation of the ostensibly economic external debt crisis has resulted. High political stakes, domestic and international, can lead to confrontation, but politics also can help generate and sustain the will for imaginative solutions. Since the stability of the international financial system and not just of debtors is threatened, it is of great importance to find at least the outline of a solution to the debt crisis that is mutually acceptable while addressing the real needs and problems of the South.