Table 9
Relative Trends in Interest, Debts and Exports of Non-OPEC, Non-OECD Developing Countries

	1970-1973	1973-1978	1979	1980	1981	1982[1] est.
Interest payments and exports: annual % change						
– Gross interest payments	20	27	40	48	31	25
Exports						
– Receipts	23	19	28	25	5	–6
– Prices	12	13	18	17	–5	–8
– Volumes	10	6	9	8	10	3
Nominal interest cost %						
– Current cost of floating interest debt	8	9	12	15	17	17
Average cost of total outstanding debt						
– NICs	7	19	10	12	14	15
– Middle-income countries	4	5	6	8	8	10
– Low-income countries	3	3	3	4	4	5
Outstanding debt: annual % change						
– NICs	22	26	18	16	19	17
– Middle-income countries	8	21	21	17	16	16
– Low-income countries	17	21	15	13	10	16

1) Estimated, assumes constant rates of exchange.

Source: *OECD Observer* 120, January 1983.

be put forward as to what would have happened if the oil shock had not been followed by a monetarist shock, the fact remains that monetarist policies translated the oil price rise into a lasting world recession, and that they are largely responsible for the financial crisis in the Third World.

Recoveries and Scars

13 August 1982. Like a thunderbolt from a sky heavy with clouds, the 'event' which everyone thought would signal a world financial crash finally happened: a major Third World debtor defaulted. Mexico, which owed \$80 billion, \$60 billion of them to Western banks, declared that it was suspending payment. A host of all the major borrowers, and dozens of small ones, immediately demanded the renegotiation of their debts.

The expected disaster did not happen. A summer on the brink gave way to a calm autumn. Nothing, of course, had been resolved. Month after month, the three biggest debts were renegotiated with considerable difficulty (and smaller ones were renegotiated behind the scenes). Payments fell due, were postponed and then fell due again. Even by the beginning of 1985, nothing had been resolved. The debate goes on. How do we find a way out? And who is to blame? The two questions are of course related. Everyone knows that the Third World debts (plus interest) will never be repaid in full. The question is: to what extent will they be *cancelled* (and therefore be paid for by the lenders), and to what extent will they be *postponed* (and paid for by the borrowers, who will also have to pay commissions and premiums)? The debate as to who is responsible revolves around two arguments. Either the banks had lent too liberally, or Third World countries had taken on unreasonable debt burdens and had then squandered the money.[44]

As we have seen, both parties have to bear some responsibility, but there is also a third guilty party: the American administration's monetarist policy. And when that policy was reversed in the summer of 1982, the crisis, which had reached panic proportions, temporarily subsided.

We will look first at the modalities of the reversal of policy, and then at the new configuration which began to take shape at the end of 1982. We can then go back to the wretched fate of the borrowers ... and their creditors.

Sanity Prevails

I have analysed elsewhere the way in which monetarism was jettisoned after having taken the world to the edge of the brink.[45] The 'experts' had in fact begun to see its limitations in the first half of 1982: the Fed's policy of restricting the pseudo-validation of credits and of limiting the money supply had created a hierarchy of values-in-process. It was quite acceptable for 'large' industrial values and even small banks to go bankrupt. Major banks and states were a different matter altogether. The world financial system, which had become a monetary system, could not be allowed to collapse.

But with the collapse of Drysdale Government Securities in May 1982, it became difficult to make such distinctions between credits (or fictive capitals), as Chase Manhattan lost a quarter of a billion dollars. In June, it was the turn of Banco Ambrosiano as the Italian central bank refused to cover its losses. Midland Bank lost half a million. In July, it was the turn of Penn Square. Continental Illinois never recovered.

The problem was the same when it came to states. Why declare Poland bankrupt by refusing to renew credits it could never reimburse? Doing so might well have 'punished' General Jaruzelski, but it would have been a disastrous operation for the big banks: it would have meant declaring that credits which had been prevalidated would no longer be validated. The big banks would have been forced to admit that they could not recover their loans and to write them off as losses. It was easier to 'pretend' and to go on as before. Particularly as a new threat was looming in Latin America.

This time the threat was very serious. The debts involved were enormous and highly concentrated. And the banks had to take full responsibility: they had acted as 'private regulators', as institutional forms for financial mediation. The three biggest debtors (Brazil, Mexico and Venezuela –30 per cent of the total owed to the banks) owed Citicorp 180 per cent of its own total assets, Chase Manhattan 183 per cent, Hanover 174 per cent, and Bank of America 148 per cent (on average the figure was between $5 and $8 billion per bank).

There was only one solution. Pseudo-validation had to begin again. New official currency had to be issued and the Fed's guarantee had to be extended to private debts (which amounts to the same thing). At the end of July, that is, before Mexico went bankrupt, the Fed announced a reversal of policy.[46] Within five months (July–December), the interest rate fell from 205. to 15.5 per cent on Treasury Bills and from 19 to 12.5 per cent on Federal Funds. These figures are, however, deceptive, as they have to be revised downwards to take inflation into account.[47] The real short-term interest rate fell from 8.5 to 2.5 per cent.

The money supply, which had been rising by 4.5 per cent for one year (in line with Friedman's recommendations), rose at an annual rate of 13.3 per cent during three quarter-years (up to June 1983). At the same time, US representatives ordered both the IMF and the Bank for International Settlements to organize a last-ditch attempt to bail out the bankrupt countries. American banks injected $40 billion into the Euromarket.

On the debtors' side, whereas Mexico agreed, after a change of presidents, to accept IMF discipline, Brazil, which had promised an improvement, declared in December 1982 that it was no longer willing to pay (in 1982 debt-service had reached a level equivalent to Brazil's total exports). It then signed a letter of intent in January, but in May and August 1983 the IMF complained that its terms had not been implemented. A new letter of intent was signed in September, and so on. Using the tactics of threatening a unilateral moratorium, introducing an austerity policy, and then immediately rescinding it when it provoked insurrections in the towns, Brazil wrested one credit after another out of the IMF and BIS. Each one gave the green light for the renewal of credits from private banks. Delfin Neto, the minister for the economy, described this as 'pushing debts with your stomach'.

On a broader scale, on 1 August 1983 the *IMF Bulletin* estimated the total debts renegotiated by these three countries, plus Poland and Argentina, at $75 billion. Another $25 billion had been renegotiated by a dozen other countries. In the previous twenty-five years, only thirteen such agreements had involved commercial banks, the most recent

having been for $3 billion in 1979 (Turkey) and $4.8 billion in 1982 (Poland).

The whole nature of debt-renegotiation had obviously changed. It was no longer a matter of making short-term adjustments for individual countries. It was a matter of admitting, in one way or another, that a large amount of international credit-money was not pledged against anything (but that the world banking system would collapse if that came out in profit-and-loss accounts), or that it was as effectively frozen as the capital of a 'direct' shareholder in peripheral Fordism.[48]

The USA: The 'Brazil' of the Eighties?

The reversal of American policy produced a new world configuration, the third since the official beginning of the crisis. One might have been forgiven for thinking that it would be similar to the 'internal Keynesianism plus lax external policies' configuration of the Carter era, and I myself thought so. Matters were in fact much more complicated than that.

Once monetarism had been relegated to the background, the other element in Reagan's policy came to the fore: the 'supply side'. The argument is microeconomic: profitability has to rise in order to stimulate enterprise. We know that this is not a false argument, as the origins of the crisis in Fordism do lie in the fall in profitability. But increased profitability is not an answer in itself (hence the tragic recession of 1981-82). Final demand also has to rise. And how can demand grow if profitability is restored by cutting wages and welfare payments, and if credit becomes increasingly scarce? The Fed's volte face removed the latter obstacle and provided a partial solution.

The concrete application of supply-side policies removed a further obstacle by cutting taxes. The effect of general tax cuts began to be felt in the 1982-83 fiscal year. The main beneficiary was the business world: the period over which expenses could be written off against tax was extended, and 10 per cent tax credits were introduced for new investments. In other words, profitability was restored by reducing

the State's share of surplus-value. But the question of demand could only be resolved if the cuts applied to *all* taxpayers and if State spending, and especially defence spending, *rose*. The supply-side policy therefore began to look like a Kennedy-style recovery: tax cuts + defence spending + lax monetary policies. The only victims were the poor. Those who paid no income tax gained no benefit from tax cuts, but welfare programmes established by Johnson were cut drastically.[49]

The recovery was spectacular, the economy growing at the same rate as during the 1975-77 recovery. But when it stopped in summer 1984, it had not yet caught up the trend of the late 70s. And if we look more closely, it becomes apparent that this was not a truly Fordist-based Keynesian recovery. It did not affect the entire population. On the contrary, it led to social polarization and to a break with monopolistic regulation.

The income of managerial staff and wage-earners in expanding sectors (mainly military electronics) rose very rapidly. Company income rose too, and investment increased faster than during the 1975-77 recovery. Meanwhile, the traditional working class accepted lower wage bargains (though the fall in inflation meant that wages fell less than might have been expected, and in some cases purchasing-power actually rose). The purchasing-power of the average wage remained, however, at 1962 levels. As the economy got under way again, millions of young people and women came into the commodity sector. Most of them took part-time jobs which had previously been within the province of domestic labour (fast food, janitoring).[50] Finally, the thirty-five million people living below the poverty line became even poorer. Homelessness and vagrancy increased in the midst of an economic recovery.

This was, in short, a New Deal in reverse. The model was 'exclusionary', or at least had a polarizing effect, but the economy was forging ahead. The model therefore had the enthusiastic support of the middle classes. This is the first bizarre similarity with Brazil in the seventies. Let us take this provocative idea a little further, bearing in mind that even in 1982, at the darkest hour of the recession, the USA was still the greatest power in the world, that it had the most

advanced technology in the most important branches, and that it had the highest average level of productivity in the world.

The second similarity with the 'Brazilian miracle' is that everyone is buying on credit. The state had cut taxes and was spending as never before. Its deficit rose from $61 billion in 1980 to $174 billion in 1984. Companies, seeing that profitability was rising, were investing hand over fist: the cumulative gap between profits and net investments reached $210 billion in the period 1981-84. Individuals, seeing that prosperity had returned after four years of recession and stagnation, began to buy houses and equipment goods again. House purchases alone exceeded by $36 billion domestic savings during the two-year recovery period. The result was a large trade deficit: $48 billion in 1983 and $123 billion in 1984. And as no one was saving, the entire deficit had to be financed by borrowing abroad. Reagan's USA, like Geisel's Brazil, contracted foreign debts in order to buy capital goods and consumer durables.[51]

The third similarity with Brazil marks the difference between the Reagan period and the Carter period. The USA was no longer paying its debts by issuing money as and when needed; it was paying with money borrowed from abroad, even if it was paying in dollars. This requires some explanation. By mid-1983, Paul Volcker, the pragmatic monetarist head of the Fed, had decided that irresponsible pseudo-validation had been going on long enough. Monetary policy became tighter again. Real short-term interest rates rose inexorably, climbing to 6 per cent by mid-1983 and putting an end to economic recovery in the summer of 1984. They then fell back to 4 per cent, under the pressure of the supporters of supply-side policies. Thanks to defence spending, the recovery got a second chance. But it has to be remembered that between 1973 and 1980, real short-term rates were negative. Real long-term rates (debentures) never fell, and since the beginning of 1982 they had been hovering at just over 8 per cent; this is twice the level of the historical tendency within capitalism.[52] They were, moreover, three and half points higher than the Japanese, German and French rates.

The USA was buying capital goods and consumer durables by contracting large debts with its suppliers. An 'inverted

Marshall Plan' was being implemented. European and Japanese trade surpluses flooded into the USA, attracted by the high rate of return in a low risk country, and by US power and growth. The flow did not, however, consist of dollars which had been accepted and re-lent, but of dollars which had to be bought before they could be lent. And the Federal Bank was issuing few dollars. This was the basic difference with the Carter period: as the USA's debts increased, it had to draw more heavily on a supply of xenodollars which was itself dwindling because Third World debts were not flowing back into the banks. The more US currency was sought after, the more it appreciated. This had two side-effects. High real interest rates were charged on loans which must be repaid eventually. At the same time, American industry and agriculture became less and less competitive.

A headlong rush to borrow money began. The USA had to borrow to service both its debts and its trade deficit. In the summer of 1984, taxes on interest paid to non-residents were abolished in order to make US bonds more attractive. In international organizations, the USA argued the case for freedom in financial activities; if it could have done so, it would have borrowed old ladies' savings. The situation is highly unstable. When it becomes obvious that the USA will have to pay out more than it could obtain from the world capital market, the dollar will fall, and the xenodollars invested in the country will take flight.[53]

It is, however, true to say that, like Geisel's Brazil, the USA used the dollars it borrowed. The USA had not yet been dethroned from its position at the centre of the world economy. And yet (new aberration or bold attempt?) it borrowed technology and capital from its rivals so as to reinforce its position. And as with Brazil, the big question – indeed the only question – was 'What did they do with the loans?'

There is no point in criticizing the USA for contracting debts. Federal debts of course represented 44.7 per cent of GDP in 1984, as against 34.8 per cent in 1981. But these debts have represented 51 per cent of GDP in 1964 ... and even 125 per cent of GDP in 1945. Borrowing in order to modernize and to acquire an export capacity may well be a sensible policy. But is that what is in fact happening?