The Anarchist Library (Mirror)
Anti-Copyright

Noam Chomsky
Jubilee 2000
May 15, 1998

Retrieved on 19th June 2021 from chomsky.info
Published in *ZNet.*

usa.anarchistlibraries.net

Jubilee 2000

Noam Chomsky

May 15, 1998

The Jubilee 2000 call for debt cancellation is welcome and merits support, but is open to some qualifications. The debt does not go away. Someone pays, and the historical record generally confirms what a rational look at the structure of power would suggest: risks tend to be socialized, just as costs commonly are, in the system mislabelled "free enterprise capitalism."

A complementary approach might invoke the old-fashioned idea that responsibility falls upon those who borrow and lend. The money was not borrowed by campesinos, assembly plant workers, or slum-dwellers. The mass of the population gained little from the borrowing, indeed often suffered grievously from its effects. But they are to bear the burdens of repayment, along with taxpayers in the West — not the banks who made bad loans or the economic and military elites who enriched themselves while transferring wealth abroad and taking over the resources of their own countries.

The Latin American debt that reached crisis levels from 1982 would have been sharply reduced by return of flight capital — in some cases, overcome, though all figures are dubious for these secret and often illegal operations. The World Bank

estimated that Venezuela's flight capital exceeded its foreign debt by 40% in 1987. In 1980–82, capital flight reached 70% of borrowing for eight leading debtors, *Business Week* estimated. That is a regular pre-collapse phenomenon, as again in Mexico in 1994. The current IMF "rescue package" for Indonesia approximates the estimated wealth of the Suharto family. One Indonesian economist estimates that 95% of the foreign debt of some $80 billion is owed by 50 individuals, not the 200 million who suffer the costs in the "Stalinist state set on top of Dodge City," as an Asia scholar describes Indonesia in the *Far Eastern Economic Review*.

The debt of the 41 highly indebted poor countries is on the order of the bail-out of the U.S. Savings and Loan institutions in the past few years, one of many cases of socialization of risk and cost, accelerated by Reaganite "conservatives" along with debt and government spending (relative to GDP). Foreign-held wealth of Latin Americans is perhaps 25% higher than the S&L bail-out, close to $250 billion by 1990.

The picture generalizes, and breaks little new ground. A recent Council on Foreign Relations study points out that "defaults on foreign bonds by U.S. railroads in the 1890s were on the same scale as current developing country debt problems." Britain, France and Italy defaulted on U.S. debts in the 1930s: Washington "forgave (or forgot)," the *Wall Street Journal* reports. After World War II, there was massive flow of capital from Europe to the United States. Cooperative controls could have kept the funds at home for postwar reconstruction, but policy makers preferred to have wealthy Europeans send their capital to New York banks, with the costs of reconstruction transferred to U.S. taxpayers. The device was called "the Marshall Plan," which approximately covered the "mass movements of nervous flight capital" that leading economists had predicted, and that took place.

There are other relevant precedents. When the U.S. took over Cuba 100 years ago it cancelled Cuba's debt to Spain on

Financial liberalization has now spread to Asia. That is widely regarded as a significant element in the recent crisis, along with serious market failures, corruption, and structural problems.

The debt is a social and ideological construct, not a simple economic fact. Furthermore, as understood long ago, liberalization of capital flow serves as a powerful weapon against social justice and democracy. Recent policy decisions are choices by the powerful, based on perceived self-interest, not mysterious "economic laws." Technical devices to alleviate their worst effects were proposed years ago, but have been dismissed by powerful interests that benefit. And the institutions that design the national and global systems are no more exempt from the need to demonstrate their legitimacy than predecessors that have thankfully been dismantled..

tract and an increase in protectionism and other market interventions, led by the Reaganites. Markets have become more volatile, with more frequent crises. The IMF virtually reversed its function: from helping to constrain financial mobility, to enhancing it while serving as "the credit community's enforcer" (IMF economist Karin Lissakers).

It was predicted at once that financial liberalization would lead to a low-growth, low-wage economy in the rich societies. That happened too. For the past 25 years, growth and productivity rates have declined significantly. In the U.S., wages and income have stagnated or declined for the majority while the top few percent have gained enormously. By now the U.S. has the worst record among the industrial countries by standard social indicators. England follows closely, and similar though less extreme effects can be found throughout the OECD.

The effects have been far more grim in the Third World. Comparison of the East Asia growth areas with Latin America is illuminating. Latin America has the world's worst record for inequality, East Asia ranks among the best. The same holds for education, health, and social welfare generally. Imports to Latin America have been heavily skewed towards consumption for the rich; in East Asia, towards productive investment. Unlike Latin America, East Asia controlled capital flight. In Latin America, the wealthy are generally exempt from social obligations, Brazilian economist Bresser Pereira points out: its problem is "subjection of the state to the rich." East Asia differed sharply.

The Latin American country considered the leading exception to the generally dismal record, Chile, is an instructive case. The free market experiment of the Pinochet dictatorship utterly collapsed by the early 1980s. Since then, the economy has recovered with a mixture of state intervention (including the nationalized copper firm), controls on short-term capital inflow, and increased social spending.

the grounds that the burden was "imposed upon the people of Cuba without their consent and by force of arms." Such debts were later called "odious debt" by legal scholarship, "not an obligation for the nation" but the "debt of the power that has incurred it," while the creditors who "have committed a hostile act with regard to the people" can expect no payment from the victims. Rejecting a British challenge to Costa Rican laws cancelling the debt of the former dictator to the Royal Bank of Canada, the arbitrator — U.S. Supreme Court Chief Justice William Howard Taft — concluded that the Bank lent the money for no "legitimate use," so its claim for payment "must fail." The logic extends readily to much of today's debt: "odious debt" with no legal or moral standing, imposed upon people without their consent, often serving to repress them and enrich their masters.

Bank lending more than doubled from 1971 to 1973, then "levelled off for the next two years, despite the enormous increase in oil bills" from late 1973, the OECD reported, adding that "the most decisive and dramatic increase in bank lending was associated with the major commodity price boom of 1972–73 — before the oil shock." One example was the tripling of price of U.S. wheat exports. Lending later increased as banks recycled petrodollars. The (temporary) rise in oil prices led to sober calls that Middle East oil "could be internationalized, not on behalf of a few oil companies, but for the benefit of the rest of mankind" (Walter Laqueur). There were no similar proposals for internationalization of U.S. agriculture, highly productive as a result of natural advantages and public sector R&D for many years, not to speak of the measures that made the land available, hardly through the miracle of the market.

The banks were eager to lend and upbeat about the prospects. On the eve of the 1982 disaster Citibank director Walter Wriston, known in the financial world as "the greatest recycler of them all," described Latin American lending as so risk-free that commercial banks could safely treble Third World loans (as pro-

portion of assets). After disaster struck, Citibank declared that "we don't feel unduly exposed" in Brazil, which had doubled bank debt in the preceding 4 years, with Citibank exposure in Brazil alone greater than 100% of capital. In 1986, after the collapse of the international lending boom in which he was a prime mover, Wriston wrote that "events of the past dozen years would seem to suggest that we [bankers] have been doing our job [of risk assessment] reasonably well"; true enough, if we factor in the ensuing socialization of risk, welcomed by Wriston and others famous for their contempt of government and adulation of the free market.

The international financial institutions also played their part in the catastrophe (for the poor). In the 1970s, the World Bank actively promoted borrowing: "there is no general problem of developing countries being able to service debt," the Bank announced authoritatively in 1978. Several weeks before Mexico defaulted in 1982, setting off the crisis, a joint publication of the IMF and World Bank declared that "there is still considerable scope for sustained additional borrowing to increase productive capacity" — for example, for the useless Sicartsa steel plant in Mexico, funded by British taxpayers in one of the exercises of Thatcherite mercantilism.

The record continues to the present. Mexico was hailed as a free market triumph and a model for others until its economy collapsed in December 1994, with tragic consequences for most Mexicans, even beyond what they had suffered during the "triumph." The World Bank and IMF praised the "sound macroeconomic policies" and "enviable fiscal record" of Thailand and South Korea shortly before the 1997 Asian financial crisis erupted. A 1997 World Bank research report singled out the "particularly intense" progress of "the most dynamic emerging [capital] markets," namely "Korea, Malaysia, and Thailand, with Indonesia and the Philippines not far behind." These models of free market success under World Bank guidance "stand out for the depth and liquidity" they have

achieved, and other virtues. The report appeared just as the fairy tales collapsed.

Failure of prediction is no sin; the economy is poorly understood. It is, however, hard to overlook the argument "that bad ideas flourish because they are in the interest of powerful groups" (economist Paul Krugman). Confidence in what is serviceable is also fortified by blind faith in the "religion" that markets know best (World Bank chief economist Joseph Stiglitz). The religion is, furthermore, as hypocritical as it is fanatic. Over the centuries, "free market theory" has been double-edged: market discipline is just fine for the poor and defenseless, but the rich and powerful take shelter under the wings of the nanny state.

Another factor in the debt crisis was the liberalization of financial flows from the early 1970s. The postwar Bretton Woods system was designed by the U.S. and U.K. to liberalize trade while capital movements were to be regulated and controlled. The latter decision was based on the belief that liberalization of finance may interfere with free trade, and on the clear understanding that it would undermine government decision-making, hence also the welfare state, which had enormous popular support. Not only the social contract that had been won by long and hard struggle, but even substantive democracy, requires control on capital movements.

The system remained in place through the "golden age" of economic growth. It was dismantled by the Nixon Administration, with the support of Britain, later others. This was a major factor in the enormous explosion of capital flows in the years that followed. Their composition also changed radically. In 1970, 90% of transactions were related to the real economy (trade and long-term investment), the rest speculative. By 1995 it was estimated that 95% is speculative, most of it very short term (80% with a return time of a week or less).

The outcome generally confirms the expectations of Bretton Woods. There has been a serious attack on the social con-