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A Plague of Locusts

Solidarity Federation

Spring 1999

A plague of locusts has swept across SE Asia, Russia and now Brazil – unlike other locusts, these act not out of hunger, but sheer greed.

Super-rich investors and bankers are driving the Third World further into poverty. Judging by some media coverage, you might think these people have lost vast fortunes as currencies fall and economies are tipped into recession. But the only losers are ordinary people condemned to poverty – while western speculators laugh all the way to the next crisis.

The Brazilian working class are the latest victims in this series of crises that goes back to the 1997 devaluation of the Thai bhat. Back then, currency collapses quickly followed in Malaysia, South Korea, Hong Kong and Indonesia, all caused by western speculators. In 1996, \$100 billion flowed into Asia, most destined for short-term investments in shares, bonds, and land speculation, rather than direct investments like plant, machinery or infrastructure. However, these short-term, fast-buck merchants panicked and, by the following summer, the money was flowing out as fast as it had flowed in.

United Nations Children's Fund (UNICEF) statistics for south east Asia now show a 30% malnutrition rate among

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under 5's — comparable with Africa. Meanwhile, 80 million Indonesians have sunk below the poverty line as food prices have doubled following devaluation of the rupiah. Wages and welfare benefits have been slashed across the whole region.

The culprits for this poverty are the big investment banks and brokerages like Merrill Lynch, Goldman Sachs and Morgan Stanley. Of just over 110,000 Americans who earned over \$1 million in 1996, a disproportionate number of them worked on Wall Street. Such undeserved prosperity is reflected in an orgy of mindless consumerism — sports car sales up, yacht sales more than doubled, and a rash of 8 and 9,000 square foot “trophy homes”.

Investing in south east Asia promised massive profits from the exploitation of low waged workers. Stockmarkets took off as foreign money poured in and the speculative frenzy took hold. To build factories and hire labour, local capitalists borrowed vast quantities of US dollars, converting them into local currencies, thus maintaining their value against the dollar. What happened in 1997 was that the speculators realised that no amount of super-exploitation of Asian workers could generate profits high enough to justify the huge investment. That's when the tide turned.

And now a practically identical situation has occurred in Brazil, the largest country in South America and, as such, crucial to the economic future of the whole continent. With 50% of Latin America's total GDP, Brazil is vital to both American continents, including the US. Hence, western institutions attempted to prop up the Brazilian economy leading to heavy falls in equity markets due to the collapse in the currency, the real. At one point, 3% was wiped off the UK stock market. In January, despite 50% interest rates, massive lay-offs, and vicious pay and welfare cuts, speculation finally forced the devaluation of the real, leading to immediate price rises in food imports. This failure to convince foreign investors of Brazil's

financial and political credibility will inevitably lead to yet more deaths from hunger.

So, do investors get their fingers burnt through stupidity and greed? No, they actually lose very little, if at all. They lobby the IMF as soon as currency collapses begin. Since the IMF only lends to countries on condition that they adopt IMF policies, those with currencies under attack are forced to raise interest rates to insane levels. This is to give investors a higher return, and therefore stem the outflow of capital. But whatever the currency, experience shows that collapse cannot be delayed once investors have lost confidence. For instance, the sterling devaluation of 1992 occurred amid desperate interest rate hikes. However, what such responses do achieve is to give investors just enough time to get their money out without sustaining heavy losses. So, high interest rates are good for the short-term investor but disastrous for the working class who, as usual, end up paying, as the economy nose dives.

In Brazil's case, the IMF arranged \$41 million of assistance, designed to relieve not only the pressure on Brazil, but on the whole of Latin America, hoping to prevent the contagion spreading northwards into the US. However, all it achieves is a safety net for investors rushing to get their interests out of the Brazilian real, which continues its downward spiral.

Capitalism survives by lending money and raking in the interest. But it has now over-stretched itself by lending vast amounts to countries with no hope of repaying the interest without driving their people to poverty and beyond. Capitalist institutions regularly devise 'rescue packages', which mean lending even more money. And Brazil, despite being very rich in resources, is being sucked dry by debt repayments.

It is becoming increasingly impossible for developing countries to keep up. The crisis resembles the Hydra of Greek mythology which, having had one head chopped off, immediately sprouted two more. No sooner is one emergency sorted

out, than stock markets start crashing elsewhere. Global capitalism is haemorrhaging.

Campaigners call for debt cancellation and, following horrific hurricane damage in central America and the Caribbean, tentative progress has been made in this direction. But debt repayments are capitalism's life blood and cannot simply be wiped away, if it is to survive. However, the situation is becoming one of "can't pay" rather than "won't pay". It is inevitable that the rot will spread sooner or later to the US and on to the rest of the developed world. And when it does, capitalism will squeeze us all more than ever before to keep its profits up. Meanwhile, the locust speculators go on, descending on nation after nation, stripping whole economies bare to satisfy their never-ending greed. They leave behind countries bereft of work and affordable food, their health and education systems in tatters.