THE GLOBAL DEBT CRISIS

A 'Plain English Economics' Classroom Resource for Post-Primary Schools

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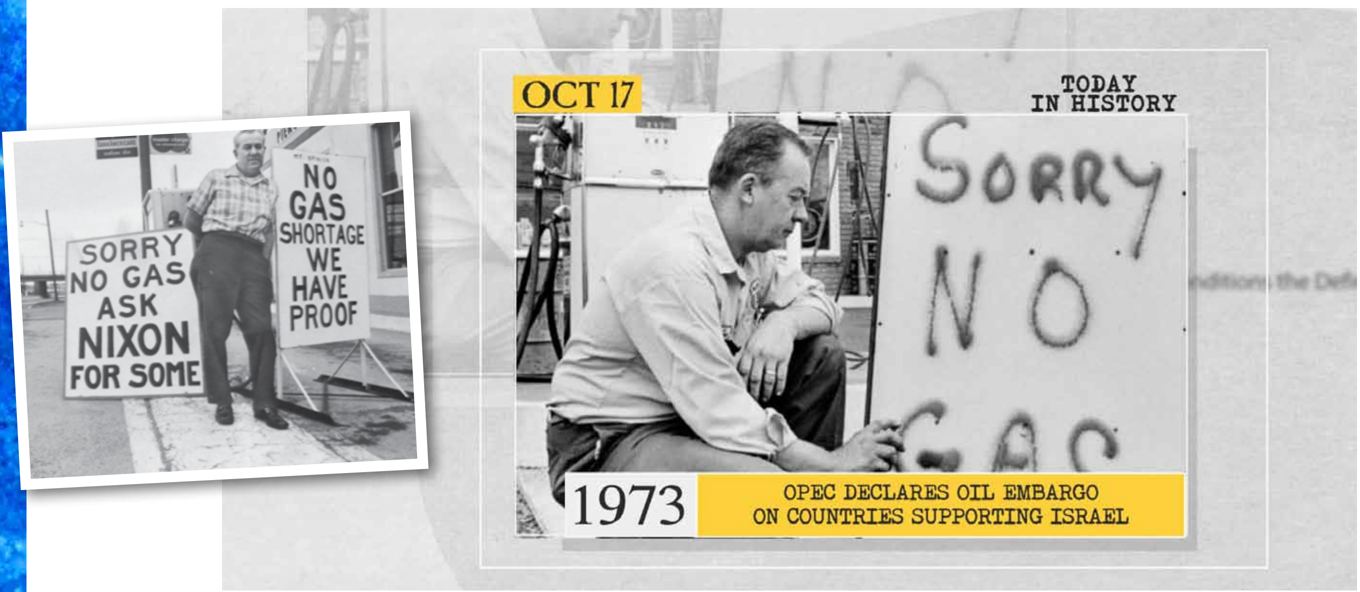
In 1973, the Organisation of Petroleum Exporting Countries (OPEC), decided to raise the price of its oil. This tactic was used as a political tool to try to make Israeli forces leave occupied Arab land. It led to 'gasless Sundays' around the world and the price of oil quadrupled. This contributed to stagflation (slow economic growth combined with high unemployment and inflation), which was covered in the previous entry in this series.



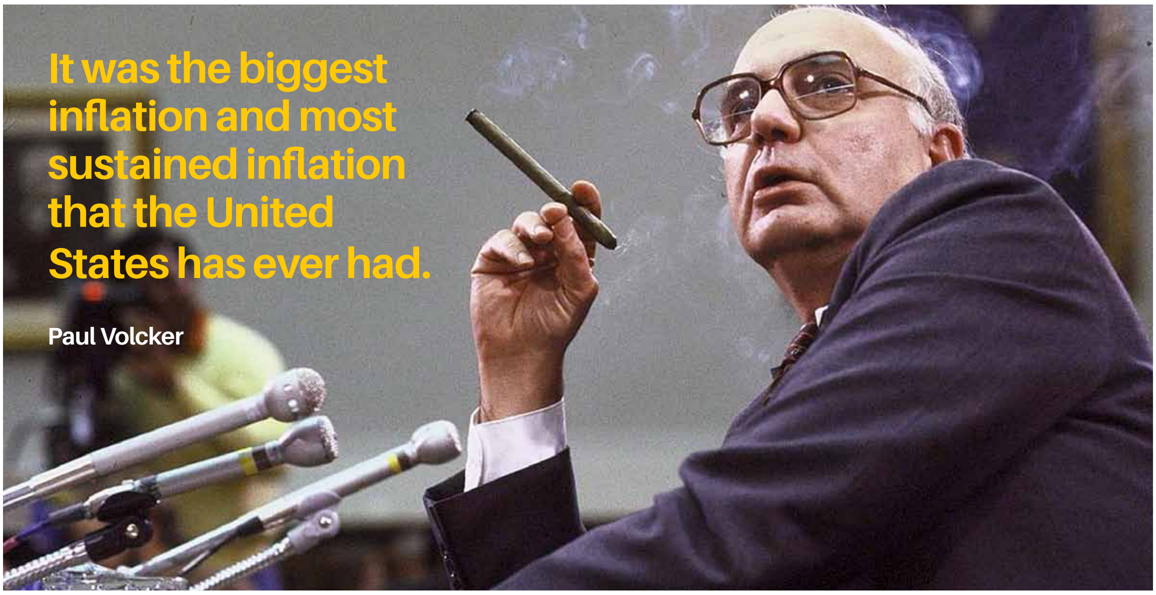
This meant that countries and companies in the Middle East had lots of extra money. They stored this money in Wall Street banks, and this money was later called, 'petrodollars' (after petroleum).

The bankers in Wall Street then had lots of extra cash, and they lent lots of it out around the world. (Remember back to entry 1 and the 'roaring 20s', where bankers engaged in the same reckless lending?) They lent money to many countries that had recently gained independence after colonisation.

Think back to the Bretton Woods agreement, which resulted in the US dollar being the dominant world currency that every other currency was 'pegged' to. In the 1980s, a single event changed the global order in one fell swoop: The Third World Debt Crisis.

The Volcker Shock

At this time, Global South countries were heavily indebted in US dollars because of the (petrodollar funded) loans given out by Wall Street. Then, crucially, interest rates on loans were raised by the US Federal Reserve, sometimes by as much as 20%. This was led by the (then) Chairman of the Federal Reserve, Paul Volcker, and was called the Volcker Shock'. The government did this in order to decrease the price of labour (wages) in the US so that inflation would decrease. The logic was that with higher interest rates, workers would have less money in their pockets and so would have less bargaining power in the workplace.



Suddenly, many countries in the Global South were not able to pay their debts because of the interest rate hike. They slid to the brink of 'default', as in not being able to repay their loans.

What would have happened to Wall Street if they had defaulted on their loans...?

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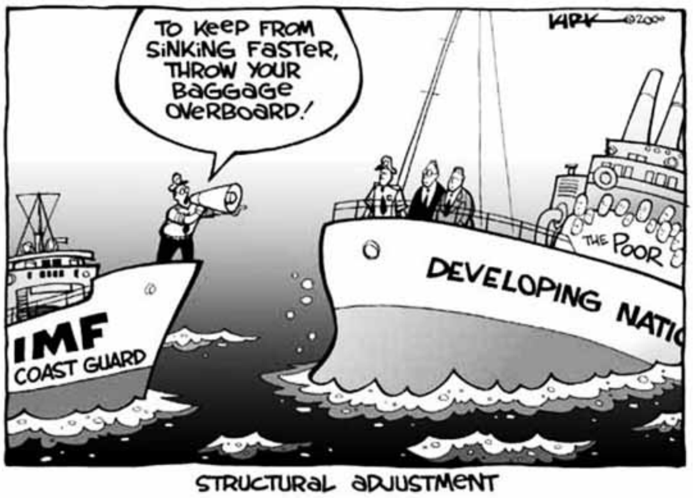
Wall Street would have collapsed! But that wasn't allowed to happen. The Wall Street bankers lobbied the US government to bail out the Southern countries. Then the US lobbied the IMF (of which it was its most powerful member) to bail out the Southern countries. (The IMF was created as the 'lender of last resort' during the Bretton Woods negotiations in order to prevent currency crises that could precipitate war, which is what kick-started WWII). The IMF agreed to roll over the debts of the developing countries but only if certain conditions were met. These conditions were collectively held within what are known as 'Structural Adjustment Programs'.

Structural Adjustment Programs

After Structural Adjustment Programs were introduced, per-capita income growth rates in the Global South collapsed from a high of 3.2 percent, which was really high for the South, down to 0.7 percent. The anthropologist Jason Hickel states that Structural Adjustment Programs were the "single greatest cause of poverty in the 20th century, after colonialism."

The leaders in these countries couldn't really do anything, however, because their currencies were pegged to the dollar, and the decision-makers, rule-makers and power-holders were in the IMF and World Bank, and other associated decision-making bodies in the Global North! The economic strings were being pulled from elsewhere and it was nearly impossible to make change.



That's where 'people power' took over. People gathered and protested in what was known as 'IMF riots'. The 1988 annual meetings of the International Monetary Fund (IMF) and World Bank were met with an international protest in West Berlin. It attracted protesters internationally against what was the largest assembly of the international monetary order since the 1944 Bretton Woods Conference. Protesters demonstrated against the IMF's austerity policies towards developing nations (contained with the Structural Adjustment Programs). Many representatives from Third World countries called for debt cancellation, and others advocated for solutions to world hunger and poverty, which were increasing due to austerity.

You might ask: why didn't the countries in debt just not pay their loans? Well, some tried. Thomas Sankara was the President of Burkina Faso. In 1987, he gave a famous speech about debt. Here are some of the things he said:

"The debt cannot be repaid. If we do not pay, our creditors will not die. We can be sure of that. On the other hand, if we pay, it is we who will die. Of that we can be equally sure.

We think that debt has to be seen from the perspective of its origins. Debt's origins come from colonialism's origins. Those who lend us money are those who colonized us. They are the same ones who used to manage our states and economies. These are the colonizers who indebted Africa through their brothers and cousins, who were the lenders. We had no connections with this debt. Therefore we cannot pay for it.

Debt is neo-colonialism, in which colonisers have transformed themselves into "technical assistants." We should rather say "technical assassins." They present us with financing, with financial backers. As if someone's backing could create development. We have been advised to go to these lenders. We have been offered nice financial arrangements. We have been indebted for 50, 60 years and even longer. That means we have been forced to compromise our people for over 50 years.

Under its current form, controlled and dominated by imperialism, debt is a skillfully managed reconquest of Africa intended to subjugate its growth and development through foreign rules. Thus, each one of us becomes the financial slave, which is to say a true slave, of those who had been treacherous enough to put money in our countries with obligations for us to repay. We are told to repay, but it is not a moral issue. It is not about this so-called honor of repaying or not."

Three months after this speech, Thomas Sankara was assassinated in a coup.

What this series demonstrates is that the flow of resources and finance around the world are to do with the rules of the global economy. But, more importantly, it has to do with who sets those rules. The global economy then, is about power.