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Global Debt Negotiations – The Wrong Track

The forthcoming annual meeting of the IMF and the World Bank in September guarantees that the calls for a strategy designed to provide a lasting solution to international debt problems will continue to be heard. Latin American debtor countries provided a taste of what is to come at their conference in Cartagena at the end of June, which is to be followed by a further get-together of debtors in Buenos Aires immediately before the IMF's annual meeting.

The message of the Cartagena conference was clear: the austerity programmes conducted by the debtor nations have proven fruitless in the face of the economic policies pursued by the USA and other industrialised countries. The increase in interest rates over the past twelve months, the trade barriers to imports from developing countries and the inappropriate austerity demands of the IMF have driven debtor countries further and further into the depths of recession. The intention underlying this one-sided and incomplete assessment of the situation from the debtors' point of view is equally clear: debt problems are to be turned into an issue for international politics. Accordingly, any solution to debt problems does not lie in further adjustment efforts but in international negotiations.

This view, as well as the topics for negotiation named at Cartagena (among others, the immediate reduction and the long-term fixing of interest rates, a reform of the IMF and measures to improve the terms of trade), can come as no surprise. The fact that such demands were most vehemently expressed by those countries which have up to now failed to carry out any serious restructuring efforts, and which in the past have shown a substantial capital flight in relation to their levels of foreign debt, is just as unsurprising.

The new notes being struck by industrialised countries which have up to now strictly rejected global negotiations are more baffling in this context. The statement made by Henry Kissinger, for example, that the debt problem can no longer be left up to bankers and that the time of the politicians has come, can be viewed as representative of this change in attitude. The West German Chancellor, Helmut Kohl, and the French President, François Mitterrand, also recently expressed a fundamentally positive attitude to a North-South dialogue on international debt problems.

Even allowing for the fact that the German Chancellor was on a goodwill tour of Latin America and that the French are still seeking ways of furthering their pet project, a new Bretton Woods conference, such statements are reason enough for apprehension. What is behind this swing of opinion in the industrialised countries? It can undoubtedly be explained in part by the rather diffuse fear of a worsening of the North-South conflict together with a possible "drifting away" of Latin America from the western bloc. The "psychological warfare" practised by the Latin Americans via their latent threat to establish a debtors' cartel may also play a part.

Reason is all too easily neglected when such nebulous dangers are invoked. Efforts by a number of debtor countries to politicise their economic problems should not be emulated by industrialised countries. Particularly European politicians must ask themselves what it is they wish to negotiate within such a global debt dialogue. The level of American interest rates, perhaps? Europeans have discovered all too often in the past that the USA is in no way inclined to align its monetary and fiscal policies with the wishes of its trading partners. Or perhaps the reduction of their own undoubtedly substantial degree of protectionism? Action is what is required here. There is no need for yet another international negotiating forum.

Politicians would do well to remember that Latin America's foreign indebtedness is characterised by a situation in which government institutions on the debtor side are mainly faced by private creditors. The negotiation of interest rates and other lending terms or of debt rescheduling agreements, therefore, is primarily a matter for these two parties. This is, to begin with, no place for the governments and foreign affairs politicians of industrialised countries. Moreover, their intervention would not ease the North-South dialogue unless, that is, they find themselves willing to solve all existing problems at the cost of the taxpayer and saver at home in some sudden striving for harmony in foreign affairs. Furthermore, Europeans should bear in mind that the international debt problems are increasingly turning out to be an intra-American affair. The US banks and, indirectly, the comparatively much stronger political and economic interests of the USA in Latin America are most affected by the situation. Although this makes statements à la Kissinger easier to understand, this insight should not encourage the industrialised countries or the IMF to move away from their previous position. It is still true that there is no debt problem as such, but merely a whole series of countries with debt-servicing problems. These problems have different reasons and individual, tailor-made solutions are required in each case. Global negotiations are not the answer.

The only grounds left for an international debt dialogue would be serious risks for the international trading and financial system as a whole. From an economic point of view, however, the situation has improved over the past two years. The banking system has had time to effect its valuation adjustments and to improve the relationship between its endangered credits and its own funds; governments and central banks have had the opportunity to take precautions to limit any damage the collapse of banks could cause.

Political factors for their part are also unable to justify a change of course. A closer look reveals that even a debtors' cartel able to threaten a unilateral moratorium is no reason for political action. Such a cartel might be able to wring more favourable lending terms out of its creditors or, at most, cause additional problems for a number of the more vulnerable banking institutions. However, only then would it be time for the central banks and politicians to step in: the precautionary measures taken to limit the extent of the damage would then have to prove their worth.

However, the possibility of a powerful cartel of debtor nations can at present be banished to the realm of fantasy: the interests of individual debtor countries are simply too different. The two largest representatives of this group, Brazil and Mexico, have been pursuing a painful yet successful adjustment policy for years. They are not interested in plunging into uncertain adventures, in which they have little to gain but a great deal to lose, just to help others.

If the banks continue to show that they are able to learn from past experiences and remain flexible, providing those countries seriously attempting to re-establish their creditworthiness with long-term reschedulings or helping them out by a limited granting of new loans – the rescheduling operation for Poland completed mid-July can serve as a model in this respect – the few debtor countries adopting a militant stance will soon realise that a course of confrontation does not pay off.

The numerous patent remedies introduced into the discussion in recent years for solving debt problems can therefore safely be forgotten. And the efforts by the IMF to take advantage of the situation to further strengthen its own position and obtain direct access to capital markets must be viewed sceptically, since they would weaken the autonomy and the self-interest of the parties directly affected.

The currently much-discussed proposal of fixing an interest rate ceiling and crediting interest amounts in excess of this level would also fail to represent a step forward. It would merely be an automation of the rescheduling process, a move which would also benefit debtors unwilling to make necessary adjustments. However, should banks and debtor countries agree to try out such a solution that is up to them. At present, the field of international lending and borrowing is certainly no place for politicians, even if they tend to feel that their time has come.

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