A Third World bind

Peter Rush outlines the underdeveloped nations' declining export income, ballooning debt costs, and vanishing credit inflow.

Continued super-high interest rates and the effect on world trade of the Federal Reserve's policies threaten to make 1982 the year the banks finally proved unable to finance the debt-requirements of the less-developed countries (LDCs). In that event, there will be not only a chain reaction of defaults bringing down the dollar-based financial system, but a collapse of world trade sufficient to mean the worst depression in centuries.

This is now being announced by the world's financial press, representing interests which have supported the Federal Reserve's usury. Articles appearing the third week of February in a number of journals say simply that in 1982, international banks will not, because they cannot, refinance a volume of lending to the LDCs which is absolutely required by the LDCs.

'Retrenchment'

The *Financial Times* of London Feb. 19 commented: "To put it bluntly, the time now appears to be coming when commercial and central bankers alike feel that deficit countries will no longer be able automatically to turn to the international credit markets as their first port of call." On Feb. 14, the *New York Times* quoted a top banker at Chase Manhattan: "Bankers are much more cautious today than they were a year or two ago in their international lending." The *Wall Street Journal* observed that "Non-OPEC borrowers may be unable to borrow all the money they need this year," making this statement in a Feb. 19 article devoted to the disappearance of the OPEC surplus whose recycling has been the mainstay of the banking system.

The "retrenchment" indicated by these circles is already underway, according to figures released by Morgan Guaranty Bank. In January, LDCs raised a piddling $422 million in credit on the Eurodollar markets. In December, they had raised $2.3 billion, while in January 1981, it was $3.1 billion.

This shortage of credit is paralleled by a ballooning of the expected credit requirements of the LDCs—precisely because Paul Volcker's policy has added tens of billions to Third World debt (($5 billion apiece to Brazil and Mexico in 1981) at the same time that massive amounts of flight-capital are leaving these countries, seeking high rates of return.

Bank for International Settlements figures show $525 billion in LDC indebtedness, not counting short-term trade credits which bring the total to $650 billion. With roughly $400 billion of this owed to private lenders at interest rates of approximately 18 percent, this means $70 billion in LDC payments of interest alone. Adding $50 billion more for principal payments, this comes to $120 billion. Several tens of billions more are owed on public debts, plus a conservative $30 billion for trade deficits (assuming the 1982 deficit is the same as 1981).

New money requirements of LDCs in 1982 thus come to several tens of billions more than $150 billion. The total lent in 1981 was $100 billion.

Intersecting this has been a nose-dive in Third World export revenues, due to the recession brought on by the Federal Reserve. The prices on many mainstay export commodities have gone through the floor: copper is off 25 percent; rubber is down 38 percent; coffee is off 26 percent; sugar is down between 25 and 55 percent. Volumes are also off, adding up to a major reduction in Third World revenues from exports.

The only reason the developing countries did not go under several years ago, when their debts began mushrooming, was a rapid and sustained growth in exports from 1975 to 1978. That was before the advent of Paul Volcker. Now, with usurious credit costs intersecting a dramatic fall in LDC exports, the "endgame" long predicted by this publication is upon us.

Bank debts coming due before July exceed the bank deposits plus unused credit lines of the 10 largest non-OPEC borrowing countries, reports the *Wall Street Journal*. This is an extremely dangerous position in which default by one or more of these major borrowers is virtually certain. One default sets off a chain reaction bringing down the entire system.

There are dozens of other countries unable to meet scheduled debt service payments over the last two years,

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in addition to Poland. Sudan has bankers worried. Costa Rica suspended payments last summer. Romania is still delaying many payments. Zaire, Turkey, Togo, Liberia, Malagasy Republic, Nicaragua, Pakistan, Senegal, Bolivia, and Vietnam have all fallen behind in payments or rescheduled debts.

Because the banking system's ability to roll over LDC (and other) debt burdens has depended on recycling OPEC surplus funds, the *Wall Street Journal* has reported that many LDCs won't get what they need precisely because that surplus has evaporated. In 1980, the OPEC surplus came to $116 billion. In 1981, it had fallen by more than 50 percent to $60 billion. Industrial contraction and falling demand for oil has forced OPEC prices down 10 percent since 1980, expected to cut into OPEC surplus by another $30 billion this year. Counting at least $15 billion in added expenditures, OPEC will have no more than $15 billion to put through the banking system in 1982, according to the Organization for Economic Cooperation and Development.

Daiwa Securities of Japan, in a prediction many believe more accurate, predicts a *net OPEC deficit* of between $3 and $6 billion.

Exemplary may be the case of Nigeria, which deposited $2.2 billion in the banks in 1980, but in 1981 withdrew and borrowed $2.3 billion—a swing of almost $5 billion in one year.

The options

Some bankers are calling for the World Bank and the IMF to increase lending to avert the crisis. Others are calling for advanced-sector governments to assume the debt burdens, getting the banks off the hook. But with huge budget deficits plaguing every major nation, the latter option is a pipe dream, while the IMF and World Bank lack the resources to more than dent the problem.

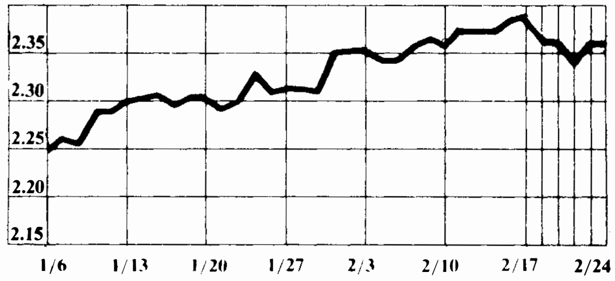
There is an option not mentioned in any of the financial press so far carrying the lurid facts and figures. An orderly reorganization of the world monetary-financial system based on gold could consolidate all LDC debts at low interest rates—as *EIR* has repeatedly proposed. If this is not carried out, then LDC defaults will be accompanied by murderous austerity in nation after nation—slashing imports for starters. This would knock the bottom out of every industrial exporting country with the near-term consequence of collapsing world trade to extremely low levels, and depression. Within the LDCs, this means political instability, "Iranization," and genocide.

The banks which have backed Paul Volcker to date, and are now announcing their "cautious" decision that they can no longer finance LDCs debts, are preparing the way for their own and the West's economic destruction.

Currency Rates

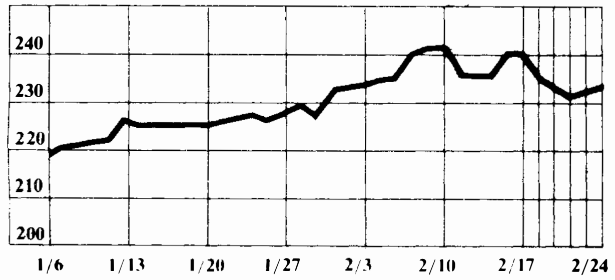
The dollar in deutschemarks

New York late afternoon fixing



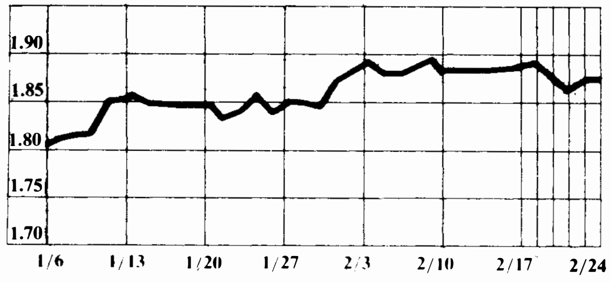
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing