
Third World Foundation News

*'International Debt: Practical Solutions' conference,
2-5 May 1988*

The University of Brasilia and the Third World Foundation brought together in Brasilia, in May 1988, an eminent group of thirty-three specialists, under the chairmanship of HE Celso Furtado, Brazil's Minister of Culture, to discuss practical responses to the international debt crisis. Participants at the conference discussed a problem which Mr Altaf Gauhar, Secretary-General of the Third World Foundation, described as 'the debt bondage [which] can only be paid with life and liberty [and by] submitting national requirements to the imperative of debt-servicing'. Their discussions highlighted the domestic costs of the net transfer of real resources from debtor countries. These costs have included depressed standards of living, hyper-inflation, sharp falls in investment and thus the prospect of reduced long-term growth.

The present problem was placed in historical perspective by Shridath S Ramphal, Secretary-General of the Commonwealth. In his paper, 'Sovereign Default: a backward glance', he pointed out that sovereign lending, default, debt renegotiation and rescheduling have occurred regularly since the era of the city-states of ancient Greece. And in the nineteenth century most of the countries in Europe and State governments in the USA were important borrowers, accounting for many of the defaults which occurred in that period. He also noted that these debtors rarely defaulted completely but adopted strategies of 'conciliatory default' such as partial rather than complete failure to maintain interest payments. Creditors were also flexible: rescheduling agreements and the capitalisation of outstanding interest into new bonds were common and often incorporated real debt relief. This flexibility ensured the continued flow of new money into overseas lending.

He indicated that the present situation is similar. For example, the comprehensive restructuring of Indonesian debt in 1960—accompanied by substantial debt relief—provided a platform for subsequent commercial borrowing. This led him to wonder why 'it continues to be argued that genuine debt relief today would have disastrous consequences for borrowers', despite all the historical evidence to the contrary.

Finally, he lamented that the Bretton Woods institutions, which were intended to manage the international economy and eliminate the booms and slumps of the past, have had neither the resources nor the mandate to rise to the challenge of the 1980s. This neglect of multilateralism has thrust responsibility back on the major economic powers to sustain the international economic system, but the USA's failure to run its fiscal, monetary and trade policy in the

wider international interest means that the prospects for global recovery, and for debtors in particular, remain uncertain.

This need for better management of the global economy was one of the conclusions drawn by William R Cline, of the Institute for International Economics, Washington DC. In his paper, 'International Debt: Progress and Strategy', he argued that the non-interventionist, market-oriented approach to the management of the debt crisis had proved reasonably successful. However, he concluded that the debts of certain low-income countries (mostly in Africa) are effectively unpayable and that relief must therefore be given for these, and that a successful resolution of the debt crisis would only be possible if the industrialised countries managed the world economy effectively, avoiding recession or high interest rates.

A sharply divergent view was expressed by Mario Marcel and Gabriel Palma. Their paper, 'Third World debt and its effects on the financial and real sides of the British economy', made it clear that the present method of managing the debt crisis has imposed enormous costs upon the global economy, a substantial proportion of which have been borne by the Third World. Between 1982 and the beginning of 1987, developing countries paid US \$700 billion in debt servicing, yet their total *long-term* debt almost doubled in these four-and-a-half years, from US \$550 billion to US \$1,000 billion, despite the fact that the banks lent only small amounts of 'new' money in this period. The industrial sectors of Northern economies have also suffered as a result of debt-induced reductions in developing country imports and the consequent decline in world trade. Marcel and Palma presented estimates of the cost in unemployment suffered by the UK, then argued that policies to reduce the debt-service paid by developing countries to British banks would result in near-equivalent gains for the UK economy arising from increased industrial activity.

Such policies, which would shift part of the debt burden onto the banks and governments of industrial countries, are not only a practical necessity but also morally desirable. Neither Northern industries nor Southern governments bear the sole responsibility for the debt crisis. As Marcel and Palma explained, British banks chose to lend substantial sums to the developing world, so that by the end of 1983 their total claims on the Third World amounted to US \$55 billion. None of them appeared to be aware of the possibility of 'generalised difficulties', believing (in the words of one of their economic advisers, quoted by Marcel and Palma) that while '... there will continue to be hard cases ... the system has shown its ability to handle such cases and prevent them having a domino effect'. Successive British governments fostered these illusions and encouraged the banks to continue to make these loans. Although the British government was later keen to forget this support for lending to developing countries, Marcel and Palma concluded that both the banks and the government must bear a heavy share of the responsibility for the debt crisis and should therefore pay a significant part of the cost of managing it.

The conference concluded by considering a number of practical proposals, including the adoption of a coherent debt negotiation strategy by all debtor countries. It was indicated that this would be facilitated by the establishment of an institutional framework to identify common objectives, to share information and technical resources and to develop an agreed strategy. Strong support was also expressed for the proposal of an 'interim period' of at least six years, during which the repayment of debt principal would be suspended while a large part of the interest would be recycled into the indebted country to finance new investment. The Third World Foundation was urged to undertake further examination and elaboration of this proposal.

*Third World Prize 1987 Presentation Ceremony,
2 May 1988*

The conference was inaugurated by HE José Sarney, the President of Brazil, who presented the Third World Prize for 1987 to Mrs Avabia B Wadia, the President of the International Planned Parenthood Federation (IPPF). The Brazilian president congratulated Mrs Wadia for the pioneering and courageous work carried out by the IPPF in helping governments to educate poor people in the responsible control of biological reproduction. He went on to underline the importance of the Third World prize and to recall the outstanding personalities to whom it had been awarded in previous years, concluding that the Third World Foundation works to unite all those who share the same current of thought in order to construct a great global network to protect us in the future.

The Chairman of the Third World Prize Selection Committee, HE Shridath S Ramphal, pointed out that the prize acknowledges service of particular value that responds to the needs of the people of the developing countries. He paid tribute to the recipients of the prize and to their unique contributions which 'testify to both the breadth of those needs and the quality of human service in fulfilment of them'. Turning to the work of the IPPF he explained that it is the oldest international non-governmental organisation (NGO) concerned with population which functions in the Third World. Quoting the citation that accompanied the Prize, he described the IPPF as a people's movement which derives its policies, purposes and strengths from its member associations, while its goals and activities are inspired by a deep concern for human well-being.



H.E. Mr José Sarney, President of Brazil, delivering his address. Standing (*right to left*) are: Professor Christovam Buarque, Rector of Brasilia University; Mrs A.B. Wadia, President of International Planned Parenthood Federation; H.E. Mr Celso Furtado, Minister for Culture (Brazil); H.E. Mr Shridath Ramphal, Commonwealth Secretary-General and Chairman, Third World Prize Selection Committee; H.E. Dr Carlos Rafael Rodriguez, Vice-President of Cuba; H.E. Dr José Aparecido de Oliveira, Governor of Brasilia; Mr B.K. Nehru, Member; Mr Azim Husain, Member-Secretary of the Third World Prize Selection Committee; and Mr Altaf Gauhar, Secretary-General of the Third World Foundation.



H.E. Mr Mailson da Nobrega, Minister of Finance (Brazil) delivering his keynote address at the inaugural session of the conference on 'International Debt: Practical Responses' held in Brasilia from 2-5 May 1988. Seated (*from right*) are: Mr Altaf Gauhar, Secretary-General of the Third World Foundation, Professor Christovam Buarque, Rector of the Brasilia University; H.E. Mr Mailson de Nobrega; H.E. Mr Shridath Ramphal, Commonwealth Secretary-General; Dr Carlos Rafael Rodriguez, Vice-President of Cuba; H.E. Mr Celso Furtado, Minister for Culture (Brazil); Mr Shahid Husain, Vice-President of the World Bank; Dr Louis Emmerij, President of the OECD Development Centre; and Mr Jan Pronk, Member of Parliament of the Netherlands.