International Credit by William Engdahl

Another day older and deeper in debt

The situation on the world credit markets brings to mind an old lament.

As world interest rates continue their steady climb over recent months, attention again comes to the problem of the debt of developing nations. A new report issued by the Mexican national trade union confederation, CTM, points out an alarming fact. Between 1982 and 1987, Mexico has paid fully $50 billion in interest on its external debt. Yet the country's total identified debt, according to a new OECD study issued in July 1988, went in the same period from $96 to $110 billion.

The Mexico case is typical of various developing countries' debt problems. Total developing country external debt grew by some 20% between 1985 and 1987. According to the OECD, total external debt for all developing countries was $997 billion in 1985, and $1,194 billion by the end of last year. Indeed, since the explosion of the "debt bomb" in the summer of 1982, their combined debt burden has increased by a staggering 50%!

Especially since U.S. Federal Reserve chairman Paul Volcker in October 1979 launched his credit contraction strategy, forcing market interest rates above 20% for almost three years, the world has been hostage to usurious pressures which have contracted real economic investment and favored creation of a paper financial speculation bubble which only began to burst on Oct. 19, 1987.

The "Third World debt crisis" grew as a by-product of a decision of leading international financial circles around the secretive Bilderberg Group, during the 1970s, to detonate two global "oil shocks" on the world economy, raising the dollar-denominated price of petroleum from $2.50/barrel to more than $40/barrel by 1980. Henry Kissinger and other strategists anticipated "recycling petrodollars" from OPEC, via London and New York banks back to the oil-importing nations that needed to finance this unexpected oil deficit.

But banks such as New York's Citibank or Lloyds in London were clever enough to set "free market" conditions on their developing sector lending. The interest rates for loans made from the unregulated Eurodollar markets to various countries such as Brazil or Argentina would "float" according to world interest rate fluctuations, usually pegged to the London Interbank Overnight Borrowing Rate (LIBOR). By 1982, the debt bubble burst, when Mexico announced to its creditor banks that it simply was unable to service its astronomical debt service obligations under the ever-changing "rules of the game."

This game of the floating interest rate debt is impossible for the debtor. *The more you pay, the more you owe,* with the compound interest rates formulas insisted on by the banks. All "reschedulings" of debt for Mexico, Brazil, and other debtor countries have been accounting manipulations, whose intent has been to keep the book value of loans by the likes of Citibank and Chase Manhattan still legally valid. "New loan agreements" are simply gimmicks by the banks to lend debtors money to repay the same banks an ever-increasing interest burden, often with the funds never leaving New York. It is similar to the formula imposed on defeated Germany in 1919 by J.P. Morgan and the architects of the Versailles Treaty and the Dawes and Young Plans. The consequences of that policy was the Great Depression of the 1930s.

Total Ibero-American debt today is, according to the Economic Commission for Latin America (ECLA), four times annual export earnings, and still climbing. It is no wonder that debtors are reaching the breaking point.

Since 1982, creditor banks have brought in the International Monetary Fund to impose draconian (and ultimately self-defeating) country import freezes, state budget reductions, cuts in wages and living standards, and have subordinated entire nations to repayment of this external debt. Creditor banks successfully forced developing sector states to assume private sector debt responsibility in various "restructurings." While immediate payment obligations were adjusted, the real debt burden soared, because of the cumulative interest payments.

In 1980, total external long-term debt (more than one year maturity) of some 109 developing countries, both public and private debt, totaled $449 billion. Since 1980, these countries have made impressive repayments to their foreign creditors. Repayment of interest due on some $449 billion from 1980-86 totaled $325.9 billion. Repayment on principal of this same debt totaled an additional $332.1 billion for the same six years. In total, the 109 developing debtors repaid $658 billion in principal and interest on their initial 1980 debt of $449 billion.

Despite repaying the original debt plus an additional $109 billion by 1986, these 109 countries' total external debt outstanding in 1986 was $882 billion. Little wonder that Citibank and company have little desire to end their debt games.

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