THE INTERNATIONAL CREDIT CARTEL

By Dan Armstrong

The First World, led by the Group of Seven (G7), has funded Third World development over the last fifty years through a variety of commercial, multilateral, and bilateral loans. In the ideal, these development loans were to provide the wherewithal for the lesser developed countries (LCDs) to build infrastructure, social programs, schools, health services, a viable economy and, eventually, a place in the global market. What we have today is a gross perversion of that ideal.

Presently tiers upon tiers of interest payments on these development loans swarm like locust around the globe, eating at the heart and soul of struggling new economies. Nearly every Third World country labors under debt. For most, it is vast crippling debt. Generations of loans and restructuring programs enslave whole populations to poverty, strip social programs of funds, and place needless rush on the harvest of natural resources. Development has occurred, but piece meal, and causing, in more instances than not, as much devastation as progress. Something has gone wrong. Horribly wrong.

Over time, with inflation and interest rate fluctuation, relative values of dollars loose sense, so the numbers have only limited relevance; but the compounding nature of the problem is revealed by a few bulk figures. In 1974, for instance, the world's LDC's debt totaled 135 billion dollars. By 1980, it had grown to $567 billion. In the next twelve years, the indebted LDCs paid $1.6 trillion to their creditors. In that same period, however, the total LDC debt rose from $567 billion to $1.4 trillion. The combined Latin American and Caribbean region paid out $739 billion in debt servicing, more than its entire debt in total. And still their debt continued to grow.

How can this be? It's disturbingly simple. All that is ever paid on these LDC loans is the interest and the service charges. The principal sits like a hungry beast behind the treasury doors gobbling up every dollar of export revenue and slurping down funds targeted for needed social services. Real economic growth stagnates, and the emerging Third World markets flounder in the global economy like lifeboats around the Titanic. Today the LDC's debt tops the $2.3 trillion mark and continues to grow like a virus. Not only is this a horrible insult against the poorest people in the world, but at the same time, it lends to the accelerated harvest and waste of the planet's natural resources. There may be no better example of how our current economic system exemplifies the antithesis of what is called for in managing the planet.

In the eyes of commerce, the development of the Third World is primarily the expansion of markets. The growth-based economy must forge new frontiers. Capitalization through loans and credit is the universally accepted method of Third World development. It has been going on in increasing amounts since World War II. Records show, however, that once a loan is re-serviced and economic conditionalities are imposed, things get very tough on the debtor country. Unfortunately, only a select few developing nations have been able to escape the initial pit fall of loan reconstruction and then its economic quicksand. The sad truth is that development is an economic tightrope in the free market arena, especially when you are entering the G7 monetary system from the outside.

The G7 fractional reserve monetary system is a system of "credit money" It allows credit to be extended in great excess of banked reserves. For example, a bank needs but three percent of the amount it loans to grant the loan. That is, three thousand dollars in reserves is all that is needed to grant a one hundred thousand dollar loan, meaning the creation of ninety-seven thousand dollars out of thin air. This "credit money" or "synthetic money" is created whenever a loan is made. It appears only as a deficit on a ledger and disappears as it is paid back. Credit amounts to a bond of trust between the financial institution and the borrower on a quantity of synthetic money, secured by a fee and maintained by the payment of interest. This method of fractional reserve banking is how money is created in the United States, whether through a bank loan, a mortgage, or a credit card expenditure.

Under this system, large sums of money are essentially created out of nothing and often, because of government guarantees, are extended far beyond the reasonable means of the recipient of the loan. We saw this in the Savings and Loans scandals of the 1980s, and we are seeing this again in the recent crash of sub-prime mortgages. This kind of problem multiplies as the loan size gets larger, for instance, in the case of borrowing nations.

Over the last fifty years, credit has been extended and extended again to the Philippines, Indonesia, Malaysia, Mexico, really all of South America and the sub-Saharan African nations. In a pattern that began when the U.S. established the Development Loan Fund in 1957 and John Foster Dulles announced that all further U.S. foreign aid would be as a loan not a grant[1], over and over again, developing countries have fallen victim to the international credit cartel's ponzi-like system. Old loans threatening to default are invariably propped up by new loans that are saved yet again by another new loan. Because the principle is often ninety-seven percent "synthetic," there is no real limit on how much credit money can be created to sustain timely loan payments. After many generations of loan restructuring, which is frightfully common, something of the principle in the original loan is lost to abstraction, only the steady demand of interest remains real. The bank cares little of the principle anyway. All but some small percentage was created out of pixels on a computer screen. It's the loan fee and interest payment that make the wheel turn.

A little history is revealing.

In the early 1970s, the increasing Vietnam War debt forced the United States to take the dollar off the gold standard, effectively floating it against the other currencies of the world. This caused the dollar to inflate radically. During this same period of time, the Organization of Petroleum Exporting Countries (OPEC) raised the price of oil, which was set in American dollars, seventy percent, partly to keep pace with U.S. inflation, partly for political reasons associated with the Yon Kippur War, and partly because oil reserves in the continental U.S. had surpassed peak production. In the resulting turmoil that included a U.S. oil embargo, the United States, the world's largest importer of oil, accepted the new oil prices with a critical condition. The profits OPEC made from American buyers would be invested in American banks through special high yield twenty and thirty-year certificates of deposit.[2]

With the resultant surge in profits connected to the increased prices, OPEC infused huge quantities of cash into the American banking industry. Significant portions of this oil money, multiplied by the methods of fractional reserve banking (a one billion dollar reserve expands to more than $30 billion in loans), were then loaned to developing countries all around the world. This so-called "petro-dollar recycling" would allow developing countries to afford oil at the new price. How thoughtful.

In many cases, because the money was there to be loaned, eager bankers offered sums well beyond the reasonable carrying capacities of the borrowing countries. Ten years down the line, as sliding interest rates rose with an inflating American economy, the most indebted of these nations were in danger of defaulting on their loans. Such was the size of these loans (in excess of $800 billion then), the extent of their diversification into other banks and holding companies, and their expectations, the world financial community in its desperately complex interdependence could not allow these Third World loans to fail for fear of bringing down the entire banking system.

Noted journalist William Greider tells the story in vivid clarity in his book on the Federal Reserve Bank, *The Secrets of the Temple* (winner of the *Los Angeles Times* book prize in 1988):

> "In a formal sense, this was the starting point for what became known as the international debt crisis—actually, a continuing series of crisis points, as one country after another approached the brink of insolvency, then appealed for relief from the Fed, the international lending agencies and private banks. Within the next year, fourteen other nations would undergo the same trauma that Mexico experienced in August of 1982—accepting new conditions of domestic austerity in exchange for new credit from the International Monetary Fund and the international banks. Each time a nation approached default, the international banking system was threatened anew, and each time, Paul Volcker (then Fed Chairman) and his aides from New York and Washington would play the crisis managers.
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> In a more fundamental sense, the debt crisis had its origins in the collision of purposes with the Federal Reserve itself. In the late seventies and early eighties, the Fed and other regulators had failed to impose prudent limits on the money-center banks and their zealous lending to the Third World. They had issued mild warnings occasionally, but they had not tried to stop the risky lending. Then, starting in 1979, Volcker launched his aggressive campaign to break inflation, rationing money tightly and imposing stern discipline on the world economy. The global liquidation collided with the mountain of LDC debt."[3]

What began as big banks making excessive loans—because there was money to be made—initiated dynamics that would make the methods of industrial agriculture's deficit farming look like children at play in a sandbox. As the LDCs lined up one after another at the loan windows of the IMF or World Bank, the bankers took over management of each country's economy as part of the new refinancing program. That is, in the complex web of international finance, new loans were procured so that interest payments on old loans could be maintained, so as not to bring down some of America's biggest banks (Citibank, Chase Manhattan, Chemical Bank, Morgan Guaranty, Bank of America, to name a few) and the rest of the international banking community with them. Stipulated in these new loans was that the IMF would send its own financial managers, as economic supervisors, to the LDC in question to make sure this second loan was applied properly. Unfortunately, in many cases a third and fourth such "austerity" loan was necessitated to keep the system afloat. This method of maintaining these generations of loans became a horrid strike against the people, the environment, and the resources of the LDCs. The United Nations *World Food Summit Technical Papers* from 1996 describe the situation:

> "During the mid and late 1980s, the conditionality required by the IMF and the World Bank on stabilization and sectoral adjustment loans was perceived as stringent, rigid, and unbending. The resultant belt-tightening and austerity were often associated with wrenching drops in real incomes and levels of living, primarily hurting those least able to adjust. Some countries rebelled at the severity of the adjustment measures imposed by the IMF and the World Bank, often in the face of civil unrest in opposition to imposed austerity."[4]

In an effort to revitalize the LDCs economies and to accelerate the loan payments, the IMF managers instituted programs that borrowed heavily from the futures of these Third World countries. Thus to service loan repayments, currencies were devaluated; forests were sold off to transnational lumber companies to be clear cut; mineral rights were sold off to be strip mined; social programs were laid to waste; and critical imports, food and medical supplies, were cut for lack of funds. Though employment temporarily climbed as companies came in to reap the harvest, it was at reduced wages and with eventual lay-offs. Generally, all fiscal sources were squeezed to service these debts that were generated out of "synthetic" money created by making loans that were foolhardy in the first place! In some cases half a country's export earnings would go simply to paying interest on these re-serviced debts:

> "Most people in highly indebted African and Latin American countries suffered a severe drop in living standards during the eighties. In Mexico, for example, real wages declined by more than 40 percent in 1982-88. In 1983, a basket of basic goods for an average family of five cost 46 percent of the minimum wage; by 1992 it cost the equivalent of 161 percent. Deepening disparities have widened political riffs; one result was the uprising of impoverished

peasants in the southern state of Chiapas in early 1994."[5]

Subcommandante Marcos, resurrection leader in Chiapas, addressed this ignored reality of financial chain reaction in vivid language to the rest of the world via the internet from the La Lacandona Jungles in August of 1992:

> "In Chiapas, Pemex (the national oil company) has 86 teeth clenched in the townships of Estacio'n Jua'rez, Reforma, Ostuaca'n, Pichucalco, and Ocosingo. Every day they suck 92,000 barrels of petroleum and 517,000,000,000 cubic feet of gas. They take away the petroleum and gas, and in exchange leave behind the mark of capitalism: ecological destruction, agricultural plunder, hyperinflation, alcoholism, prostitution, and poverty."

Loans made in the name of development and economic independence had become financial chains. And these over zealous loans of the 1970s were unwarranted, at least in size, from the beginning. They placed undo pressure on LDCs to industrialize more quickly than their situation allowed. Sadly, corrupt Third World leadership eagerly took the money for immediate gain, mansion homes and Swiss bank accounts, while mortgaging away their country's hopes for the future. For the rest of the world, it generated a vicious insult to global resource conservation and the health of the environment as a whole, not to mention the stress it placed on working-class borrowers world-wide.

> "Efforts by debtor nations to service their foreign loans have hemorrhaged their economies and increased the strain on an often already frayed social fabric—without even getting the countries off the debt treadmill. African governments now spend more than twice as much servicing foreign debts as they do on health and primary education for their people. Debt servicing has also led to environmentally disastrous resource extraction projects that put increased pressure on indigenous peoples and trigger evictions of small-scale farmers and pastoralists."[6]

When environmental questions must be a concern for every big lender, when the very health of the loan will eventually depend on the long-term health of the borrower, we again have the reverse happening. Instead of using loans to influence sustainable industry, the financial system went for strip mining to protect its ledger sheets—at the cost of all involved—and more. Even education, the clearest gift of industrialization, is sacrificed. In the end, the American public was assessed some considerable portion of what amounted to bailing out its biggest banks for making ill-advised and excessive loans. These are the kinds of economic mechanisms that undermine any optimism toward equitable food distribution or trade in the coming years. Incredibly, most of these LDC loans remain active today, screaming every few years for restructuring again and again.

In her book *Lent and Lost: Foreign Credit and Third World Development*, Cheryl Payer makes a sound argument that these types of loans, which are still being initiated to this day, are a form of entrapment:

> "The use of credit to pry markets open is also obvious in the conditionality of the IMF and the World Bank…Import liberalization represents the surrender of all or part of the domestic market to foreign sellers and is, incidentally, about the worst possible policy that can be imagined for any country short of capital. But to sellers, credit is considered a cheap way to buy markets."[7]

Like the credit cards that stream through the U.S. mail, the offer of credit is a hook, a way to ensnare borrowers of questionable risk in a cascade of accruing interest. Credit in the developing world is no different, except more is at stake. IMF austerity programs for loan restructuring are just that—imposed austerity. In addition to the clear catchment of import liberalization, education, social programs, and environmental stricture are casualties to catching up with the multiple tiers of interest. These are the very things development is supposed to yield and the keys to the theory of demographic transition (the evolution of self-determined fertility control through development). Instead compounding interest and trade liberalization are the silent oppressors of the Third World today.

Import liberalization is designed so that loaned money can return to the G7 conglomerate via trade. This effectively turns the loan into grease for the large exporting economies. Markets are pried open and the kind of trade protection that is necessary for an emerging economy to survive is undermined. In other words, the billion dollar loans that come from the IMF or the World Bank are only granted through the auspices of G7 trade advantage. The U.S. Congress, for example, does not sanction an IMF loan if the conditions are not imminently profitable for U. S. business interests. As long as this is part of the loan structuring apparatus, then these loans are not really granted in good faith to the original constitution of the Bretton Woods Institutions. In the long run, imbalance of trade, in conjunction with tiers of interest, is a sure formula for economic failure, environmental degradation, and a nation's eventual impoverishment—the exact opposite of the ideals espoused in Bretton Woods, i.e., Third World development.

Even more frightening and less publicized in this circus of horrors is that in several of the indebted nations—Bolivia, Nicaragua, Mexico, and Columbia in particular—as legal fiscal resources are increasingly strained, political leadership becomes more susceptible to illicit pressures. Be though as it may, Latin American governments, led by a vast array of colorful military dictators, have been historically unstable and corrupt. Too often the infusing of loans into these countries has resulted in tiny portions of the populace profiting and large portions paying. When the servicing of these loans became unmanageable, pinching even the aristocracy, some leaders have turned to drug dealing to maintain their levels of indulgence. Witness present difficulties regarding Mexican and Colombian compliance with U.S. anti-drug policies. In a world where the illegal drug trade tops one trillion dollars annually (three percent of the world economy!), there is certainty that it supports, nay maintains, the finances of several otherwise struggling Latin American and Southeast Asian economies. One must wonder, if in the constrictions of the international banking web, the legalization of drugs is not deterred by the necessity drugs play in these same countries' loan maintenance.

On the upside, we have recently seen a bold new move made against this system. Hugo Chavez the President of Venezuela has taken it on himself to use his country's oil profits to completely pay off Venezuela's World Bank debts and extend credit to other South American countries in order to allow them to pay off their World Bank loans and escape from the pressure of the G7 credit cartel. Though the long terms success of this is yet unknown, it certainly must be better to have South American countries taking care of their own debts, creating what is now called the Bank of the South, rather than falling into the trap of IMF austerity programs.

In summary, the expansion of industrialization is facilitated, even powered, by the extension of credit. This is the machine opening new economic frontier for growth—the impetus behind the economy's momentum. Though this does offer opportunity to developing nations, the record of the last fifty years shows that capital import with conditionalities is a losing proposition with little to show but deepening debt. This debt, mortgage after mortgage, stresses the social fabric of both the developed and the developing world, and with the overriding pressure of accruing interest, financial assets are forced against the liability of the land. More than anything else, whether by intention or inattention, the credit systems of the international market are strangling us all little by little. It will appear as civil unrest as it did in Chiapas or in food prices that huge portions of the world's population cannot afford or some new disease born in an urban ghetto—anywhere in the world. Like it or not, when the markers are finally placed, with a system as backwards as the one that currently runs the show, even the winners will be counted among the losers when the house of cards finally collapses.

Notes:

1. Cheryl Payer, *Lent and Lost: Foreign Credit and Third World Development* (London and New Jersey: Zed Books, Ltd, 1991) p. 35.
2. William Cooper, *Behold a Pale Horse* (Camp Verde, Arizona: William Cooper, 1990) p. 350.
3. William Grieder, *Secrets of the Temple* (New York: Simon and Schuster, 1987), p. 519.
4. *World Food Summit Technical Papers* (Rome, Italy: Food and Agriculture Organization of the United Nations, 1996), Vol. I, Chpt. 3, p. 15.)
5. Michael Renner, "Transforming Security," *State of the World 1997*, Worldwatch Institute (New York: W.W. Norton & Company, 1997), p. 123.
6. Ibid, p. 129.
7. Cheryl Payer, *Lent and Lost: Foreign Credit and Third World Development* (London and New Jersey: Zed Books, Ltd, 1991) p. 115.