

The Proof Is in: Third-World Debt Is Erasable

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Since August 2007, North American and European banks have been experiencing a very severe crisis, now poised to spread to the entire neo-liberal free-market system as a whole. The actual sum of asset write-offs the banks have had to make now exceeds \$200 billion (127.4 billion Euros). According to the most qualified experts, the bill will ultimately exceed a trillion dollars.

In the United States, 84 mortgage loan companies went bankrupt or ceased all activity between January 1 and August 17, 2007, versus only 17 for the whole year in 2006. In Germany, the IKB bank and the public SachsenLB were barely saved. England had to nationalize the bankrupt Northern Rock bank. Carlyle Capital Corporation fund, close to the Bush family, has just collapsed: its debts represented 32 times its capital. As for the prestigious American bank Bear Stearns, it has just called on assistance from the United States Federal Reserve Bank to obtain emergency financing; it will be purchased by JP Morgan Chase for a mere mouthful of bread.

So several segments of the debt market are in the process of collapsing and are dragging the powerful banks and hedge funds that created them along in their wake. The rescue of these private financial institutions is being realized thanks to massive intervention by government entities.

A question arises in consequence: why have the banks, which do not hesitate today to erase doubtful debts in the tens of billions of dollars, always refused to annul developing countries' debt? They are demonstrating that it's possible and altogether necessary. Let us remember that criminal dictatorships, corrupt regimes, and leaders faithful to the great powers obtained the debts the banks presently claim. The big banks lent sums without count to regimes as disreputable as those of Mobutu in Zaire, Suharto in Indonesia, the Latin American dictatorships of the 1970s-1980s, without forgetting the Apartheid regime in South Africa.

How can they continue to inflict the yoke of this debt on the peoples who suffered these dictatorial regimes the banks themselves financed? Legally speaking, numerous odious debts figure on their books and have not been repaid. But the banks continue to exact reimbursement. Let us also recall that the third-world debt crisis was provoked in 1982 by the Fed's brutal and unilateral decision to increase interest rates.

Previously, private banks had loaned money at variable interest rates as if there were no tomorrow to already-over-indebted countries, ultimately unable to cope. History is repeating itself, but in the North this time and in a particular way: the over-indebted households of the United States have become unable to repay their variable-rate mortgages because the real

estate bubble has burst. The debt write-offs that banks are effecting today vindicate those who demand cancellation of developing countries' debt: that third-world public debt to international banks came to \$181.9 billion in 2006, or a lesser sum than that which has been written off in a few months....

The big private banks have triply sinned: they've constructed the disastrous montages of private debt that led to the present catastrophe. They've lent money to dictatorships and forced the democratic governments that succeeded them to reimburse every last cent of that odious debt; they've refused to annul third-world debt, although its repayment involves deterioration in the living standards of the populations involved.

Consequently, we must demand that they account for themselves. The governments of the countries in the South must effect audits of their debt, as Ecuador is doing today, and repudiate all odious and illegitimate debts. The bankers are showing them that it's possible. It would be a first step in returning finance to its appropriate role, that of a tool in the service of the human being. Of all human beings.

infos article

URL: <http://www.cadtm.org>

Article in french: <http://www.mondialisation.ca/index.php?context=va&aid=8451>

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