NOAM CHOMSKY ON DEBT

Noted linguist Noam Chomsky has not only provided fresh insights over four decades into the use and beauty of language, but has also become known as one of the more provocative "dissident political scholars" in America. As others who challenge accepted dogmas Chomsky has earned many labels, most of which classify him as a "Marxist" or "radical leftist."

In coming issues, I'll be examining in greater detail the various workings of what we have variously called The Global Plantation or, if you prefer former President Bush's term, "The New World Order." One of the central components of this creature is debt; following are some interesting thoughts of Mr. Chomsky on this subject, forwarded to me by the Washington-based 50 Years is Enough:

Reclaiming the Remaining Debts Must be Justified

By Noam Chomsky

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The call for debt cancellation is welcome, but debt does not just go away. Someone pays, and history generally confirms what a rational look at the structure of power would suggest: risks tend to be socialized, just as costs commonly are, in the system mislabeled "free enterprise capitalism."

The old-fashioned idea is that responsibility falls upon those who borrow and lend. Money was not borrowed by campesinos, assembly plant workers, or slum-dwellers. The mass of the population gained little from borrowing, indeed often suffered grievously from its effects. But they are the ones who bear the burdens of repayment, along with taxpayers in the West - not the banks who made bad loans or the economic and military elites who enriched themselves while transferring wealth abroad and taking over the resources of their own countries.

The Latin American debt that reached crisis levels from 1982 would have been sharply reduced by return of flight capital--in some cases, overcome, though all figures are dubious for these secret and often illegal operations. The World Bank estimated that Venezuela's flight capital exceeded its foreign debt by 40 per cent in 1987. In 1980-82, capital flight reached 70 per cent of borrowing for eight leading debtors, according to *Business Week* estimates. That is a regular pre- collapse phenomenon, which we saw again in Mexico in 1994.

The current IMF "rescue package" for Indonesia approximates the estimated wealth of the Suharto family. One Indonesian economist estimates that 95 per cent of the country's foreign debt of some $80 billion is owed by 50 individuals, not the 200 million who end up suffering the costs.

Debt can be and has in the past been canceled. When Britain, France and Italy defaulted on U.S. debts in the 1930s, Washington "forgave (or forgot)" as the *Wall Street Journal* reported.

There are other relevant precedents. When the U.S. took over Cuba 100 years ago it canceled Cuba's debt to Spain on the grounds that the burden was "imposed upon the people of Cuba without their consent and by force of arms." Such debts were later called "odious debt" by legal scholarship, "not an obligation for the nation" but the "debt of the power that has incurred it," while the creditors who "have committed a hostile act with regard to the people" can expect no payment from the victims.

When Britain challenged Costa Rica's attempts to cancel the debt of the former dictator to the Royal Bank of Canada, the arbitrator--U.S. Supreme Court Chief Justice William Howard Taft--concluded that the bank lent the money for no "legitimate use," so its claim for payment "must fail."

The logic extends readily to much of today's debt: "odious debt" with no legal or moral standing, imposed upon people without their consent, often serving to repress them and enrich their masters.

In the 1970s, the World Bank actively promoted borrowing. "There is no general problem of developing countries being able to service debt," the Bank announced authoritatively in 1978. Several weeks before Mexico defaulted in 1982, setting off the crisis, a joint publication of the IMF and World Bank declared that "there is still considerable scope for sustained additional borrowing to increase productive capacity"--for example, for the useless Sicartsa steel plant in Mexico, funded by British taxpayers in one of the exercises of Thatcherite mercantilism.

The record continues to the present. Mexico was hailed as a free market triumph and a model for others until its economy collapsed in December 1994, with tragic consequences for most Mexicans.

Shortly before the Asian financial crisis erupted in 1997, the World Bank and IMF praised the "sound macroeconomic policies" and "enviable fiscal record" of Thailand and South Korea. A 1997 World Bank research report singled out the "particularly intense" progress of "the most dynamic emerging (capital) markets," namely "Korea, Malaysia, and Thailand, with Indonesia and the Philippines not far behind." These models of free market success under World Bank guidance "stand out for the depth and liquidity" they have achieved, and other virtues. The report appeared just as the fairy tales collapsed.

Failure of prediction is no sin; the economy is poorly understood. But it is hard to overlook the argument that economist Paul Krugman put: "Bad ideas flourish because they are in the interest of powerful groups." *Over the centuries, "free market theory" has* *been double-edged: market discipline is just fine for the poor and defenseless, but the rich and powerful take shelter under the wings of the nanny state.*

Another factor in the debt crisis was the liberalization of financial flows from the early 1970s. The postwar Bretton Woods system was designed by the U.S. and U.K. to liberalize trade while capital movements were to be regulated and controlled. The latter decision was based on the belief that liberalization of finance may interfere with free trade, and on the clear understanding that it would undermine government decision-making.

The system remained in place through the "golden age" of economic growth. It was dismantled by the Nixon Administration, with the support of Britain, and later others. This was a major factor in the enormous explosion of capital flows in the years that followed. In 1970, 90 per cent of transactions were related to the real economy (trade and long-term investment), the rest were speculative. By 1995 it was estimated that 95 per cent of transactions were speculative, most of them very short term (80 per cent with a return time of a week or less). The outcome generally confirms the expectations of Bretton Woods.

Markets have (resultingly) become more volatile, with more frequent crises. The IMF has virtually reversed its function: from helping to constrain financial mobility, to enhancing it while serving as "the credit community's enforcer" (IMF economist Karin Lissakers). It was predicted at once that financial liberalization would lead to a low-growth, low-wage economy in the rich societies. That happened too. For the past 25 years, growth and productivity rates have declined significantly. In the U.S., wages and income have stagnated or declined for the majority while the top few per cent have gained enormously. By now the U.S. has the worst record among the industrial countries by standard social indicators. England follows closely, and similar though less extreme effects can be found throughout the OECD.

The effects have been far more grim in the Third World. Comparison of the east Asia growth areas with Latin America is illuminating. Latin America has the world's worst record for inequality, east Asia ranks among the best. The same holds for education, health, and social welfare generally. Imports to Latin America have been heavily skewed towards consumption for the rich; in east Asia, towards productive investment.

Debt is a social and ideological construct, not a simple economic fact. Furthermore, as understood long ago, liberalization of capital flow serves as a powerful weapon against social justice and democracy. *Recent policy decisions are choices by the powerful, based on perceived self-interest, not mysterious "economic laws."* (Emphasis added.) Technical devices to alleviate their worst effects were proposed years ago, but have been dismissed by powerful interests that benefit. And the institutions that design the national and global systems are no more exempt from the need to demonstrate their legitimacy than predecessors that have thankfully been dismantled.