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God save Latin America from its friends,
for it can handle its enemies on its own.

THE EXTERNAL DEBT OF CENTRAL AMERICA WITHIN THE CONTEXT OF THE DEBT OF LATIN AMERICA

The external debt crisis of the Third World and Latin America erupted in the eighties, when the major capitalist countries began to collect a debt that had been accumulating since the fifties. In so doing, they broke with a tradition of dealing with the Third World established since the Second World War, characterised by a tendency to respect the local needs for economic, social and political development. Once creditor countries started collecting the debt, all development considerations for the Third World were put on the back burner. Instead, the process was now turned into a mere exercise of extracting surpluses for the major capitalist countries and, to an ever increasing extent, the US arms industry. Debt repayment has begun to have the same effect colonialism had in previous centuries; there is not the slightest hope of liberation in sight.

It is of utmost urgency to formulate an idea as to the reasons for the external debt in order to develop a suitable strategy to counter the threat posed by debt repayment for the masses on this planet.

The reflections below are aimed at providing a rough sketch of a problem which is a matter of life and death for these masses.

I. THE EXTERNAL DEBT OF LATIN AMERICA AND ITS DEVELOPMENT BETWEEN 1950 AND 1986.

The debt problem originated not in the seventies, but in the fifties. In 1950, the external debt of Latin America amounted to approximately one third of its exports; by 1960, it had already climbed to 1.34 times the exports. In 1970 it reached 1.7 times thereof, to exceed them 3.5 times in 1984.

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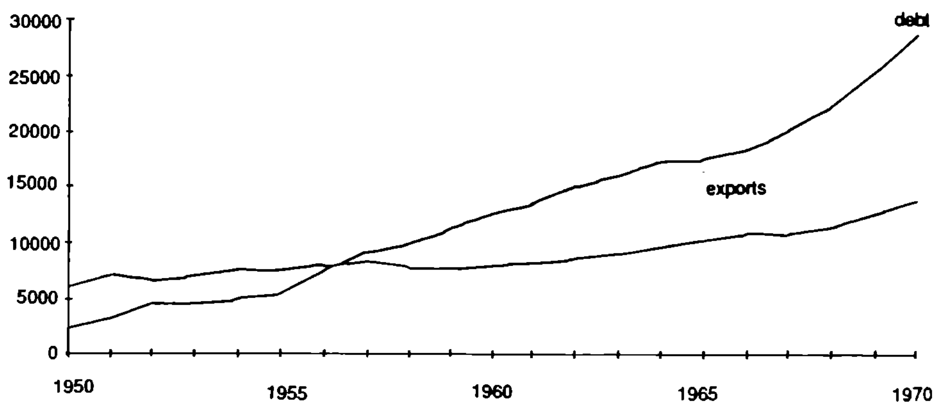
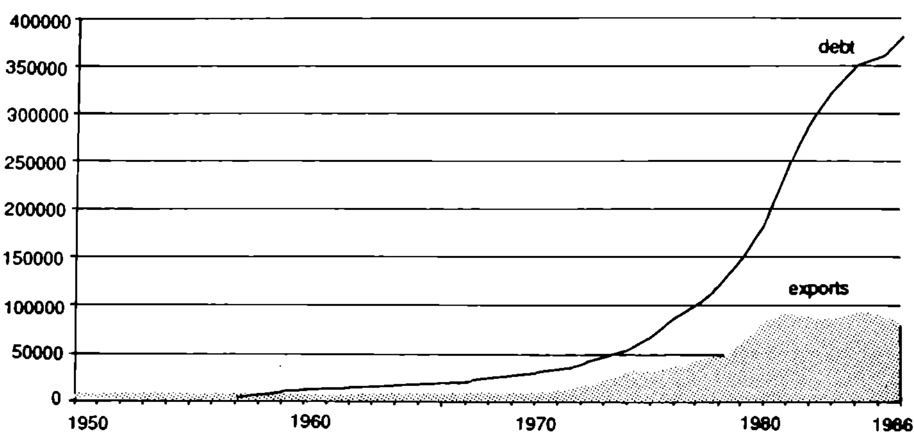
Graph No. 1

LATIN AMERICA: DEBT AND EXPORTS, 1950 -1970



Graph No. 2

LATIN AMERICA: EXTERNAL DEBT AND EXPORTS



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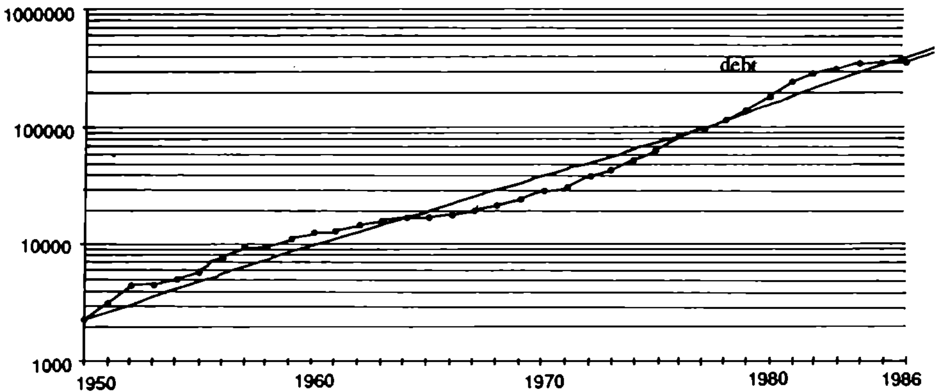
The external debt increased eleven times between 1950 and 1970, whereas between 1970 and 1984 it went up fourteen times. Between 1960 and 1970, this debt rose from $12.6 billion to $28.9 billion, i.e. an increase of 230%. In real terms, this is an increase of 208%. (1) From 1974 to 1984, it went from $58 billion to $360 billion, an increase of 620%. In real terms, this is an increase of 280%. Although the debt growth rates have continued to climb, indebtedness was already in full development prior to 1974. As early as 1973, and thus before the oil crisis, it was questionable whether Latin America could repay its debt, already extremely high at the time, given an average debt-exports ratio of 190% throughout Latin America.

Graph No. 3

THE EXTERNAL DEBT OF LATIN AMERICA 1950-1986
(logarithmic scale)



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(1) After correction of the last figure for the cost of living index in industrialised countries, CEPAL, América Latina y el Caribe: Balanza de Pagos 1950-1984, Cuadernos Estadísticos de la CEPAL, Santiago de Chile, [CEPAL, Latin America and the Caribbean: Balance of Payments 1950-1984, CEPAL Statistics Publications, Santiago, Chile], 1986, p. 28.

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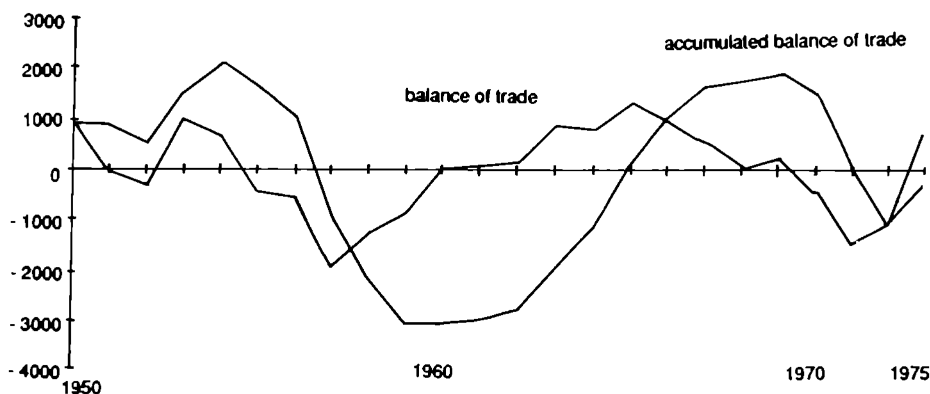
From 1950 to 1982, Latin America as a region turned to new loans to finance all the servicing of its debts. The balance of trade was upset from 1974, and Latin America received a flow of surpluses of approximately $60 billion for its negative balance, also financed by loans. This period lasted until 1982.

Graph No. 4

BALANCE OF TRADE AND ACCUMULATED BALANCE OF TRADE
1950-1975



Graphs Nos. 4 and 5 show this movement of the balance of trade, and therefore the flow of trade surpluses. The accumulated balance of trade is the "grand total" of previous figures of the balance of trade. The points crossed by the category axis indicate the times when the figures (of the balance) equal zero. Consequently, these are times when there was neither entry nor exit of trade surpluses to and from the country. Whether positive or negative, the maximum fluctuations give the maximum flow of surpluses reached between two points with zero value.

More recently - as from 1982 to be more precise - the creditor nations demanded repayment of the debt. Latin America started transferring surpluses to these creditor nations through a positive balance of trade. (2).

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(2) As used here, "the transfer of surpluses" refers to the transfer derived from one country's economic activity in relation to other countries. In Latin America, at least, the balance of trade constitutes the sole source for transfers of surpluses abroad. At the same time, however, this balance of trade is also the sole source for receiving surpluses, should they be transferred to Latin America. A transfer of capital does not necessarily entail a transfer of surpluses. This occurs only if it finances a negative balance of trade the channel for transferring surpluses being the balance of trade itself. For example, loans which transfer capital to service other loans do not transfer surpluses. Surpluses transferred by the balance of trade are not always explicit. They may be hidden, as is the case of a transfer due to deterioration of terms of trade. Balance of trade figures reveal explicit surpluses. We are going to continue our discussion with reference to these trade surpluses.

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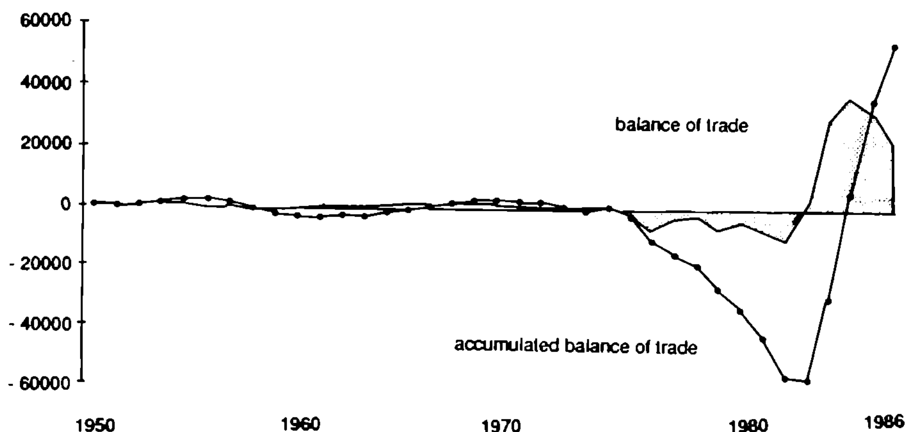
Around $110 billion were transferred between 1982 and 1986. In spite of this massive transfer, the external debt went up by about $100 billion during this same period, i.e. from $288 to $382 billion. The scope of these amounts can be rendered comprehensible only through comparative examples. The entire Marshall Plan for Europe from 1948 to 1951 amounted to $14 billion at the time - a sum which by today's market prices corresponds to around $70 billion. Between 1982 and 1986, surpluses transferred by Latin America to the creditor countries were the equivalent of the entire Marshall Plan; and yet, Latin America could not keep the debt from going up by an almost identical amount. Despite this colossal sum, Latin America had scarcely paid half the amount it should have paid.

Graph No. 5

BALANCE OF TRADE FIGURES AND ACCUMULATED BALANCE OF TRADE



Between 1982 and 1986 the debt rose by 33%, or by more than 5% per annum. Assuming an average interest rate of 10% on the overall debt, half of the interest owed was in fact paid, while the remainder was financed by new credits. The portion of the interest that could not be paid was converted into additional debt financed by new credits - hence the approximate increase of 5%.

The situation of Central America is even more dramatic. Whereas Latin America did manage to transfer half the interest it owed to its creditors, Central America transferred nothing in real terms. From 1973 to the present, it has had a negative balance of trade every single year. Today it has an external debt of around $17 billion. At an average interest rate of 5% to 6%, the annual interest owed hovers

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around $9 billion per year. Nevertheless, especially because of its balance of trade deficit, the debt grows by 9% annually, i.e. by about $1.5 billion. All interest and the balance of trade deficit are financed through additional foreign loans. If the region did not receive a large amount of aid, the debt would increase by 12% annually. Private and official aid in 1984 amounted to $580 billion; the balance of trade deficit was $1,114 billion, i.e. a little more than half the balance of trade deficit, while exports have been stagnating for more than a decade now, with no apparent signs of improvement. This stagnation of the social product and exports translates into an increase of the debt burden in relation to both the social product and exports.

In relation to exports, the debt of Central America is now reaching the same size as the average for Latin America, i.e. approximately 3.5 times the annual exports. Interest payments are less, however, because the average rate of interest is lower as the credit contributed by private banks is lower. Whereas Latin America owes 45% of its exports annually in interest payments and profits transfers, Central America owes around 25% per annum.

We may make the following general observation: Since 1982, when the creditor nations began to demand repayment of the debt, in spite of the overall sacrifice expected of the population and at the expense of development of the continent, Latin America has not managed to pay even the interest owed. On average, Latin America has been able to make half the interest payments; Central America, on the other hand, has not been able to pay even a small portion thereof. As a result, the extraordinary efforts to cope with this debt could not turn the tide of constant growth of this debt, at rates which on the average hover round 9% for Latin America. Since 1982, Latin America has exported surpluses at a much higher level than that of the Marshall Plan after the Second World War. And yet, even while exporting such high surpluses, the external debt continues to increase by amounts almost equivalent to the surpluses exported. From 1982 to the present, Latin America has exported more surpluses than it has received over the years since the fifties. From 1950 to 1982, it received fewer surpluses from abroad than the surpluses exported from 1982 to the present, without even taking into account the gigantic losses due to the terms of trade. Foreign capital has been turned into a strait-jacket strangling the development of Latin America for the foreseeable future.

II. THE DEBT SPIRALLING PHENOMENON

An analysis of the figures pertaining to the development of the external debt of Latin and Central America leads to the inevitable conclusion that this debt entails a growth spiral which is not linked to the readiness of private banks and public financing bodies to facilitate credits corresponding to the rise in the debt. This spiralling phenomenon has been an on-going trend in Latin America since the 50's. It began in 1950 with a debt that was repaid with new credits until it reached such a scale that it became payable only through additional new credits. Dating from the early seventies, this situation reached its final state at the beginning of the eighties. Throughout this period, the debt continued to grow, until it became so heavy, it could not but go on increasing through a simple growth spiral.

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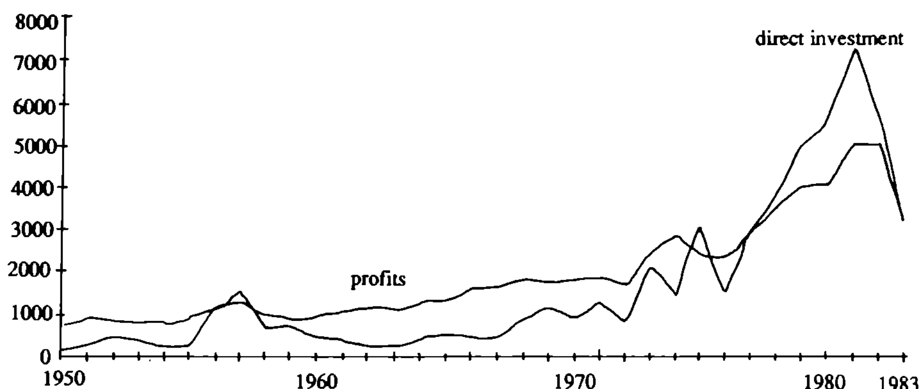
This began back in the fifties and sixties. During this time and up until 1969, Latin America had a predominantly positive balance of trade. It did not receive surpluses from external sources. Nevertheless, indebtedness got under way during the fifties almost exclusively as a result of profit transfers due on direct foreign investments. These direct foreign investments were not generated by a transfer of surpluses from within, but exclusively by the mobilisation of Latin America's internal resources.

Graph No. 6

DIRECT FOREIGN INVESTMENT AND PROFITS TRANSFERRED
1950-1985



Graph No. 6 shows that during the 1950-1970 period, profits paid as a return on direct foreign investment were significantly greater than the direct foreign investment entered in the balance of payments. As of 1977, direct foreign investment was for a period greater than the amount of the profits transferred, reaching on equilibrium in 1983. For the entire 1950-1983 period, profits were greater than the amounts of direct foreign investment registered. From 1950 to 1983, direct foreign investments of $54,590 million dollars and a total of $64,874 million in profits transferred were registered. Throughout this period, the profits transferred exceeded the direct investments registered by approximately $10 billion. Nevertheless, the direct investment registered is not a contribution transferred in foreign currency. It can be estimated that up to 1968, only 15% of the direct investment was in fact transferred from abroad. The rest has been financed through the mobilisation of savings from within Latin American countries converted into foreign capital.

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When this figure is taken for the entire period, the direct investment transferred from abroad is no higher than $8,180 million. The profits transferred abroad therefore amount to $56,694 million more than the direct investment transferred from abroad. There was not a single year between 1950 and 1983 with a net contribution in foreign currency from direct foreign investment. Every year, the profits transferred were increasingly higher than the contribution made by direct foreign investment. For the years between 1950 and 1984, the annual profitability on the direct investments transferred was, on average, greater than 800%, without any initial contribution. In reality, transfers of currency for direct investment are no more than the return of a small portion of the profits transferred annually. Latin America has been and continues to be a goose laying golden eggs, but only for its lords and masters, itself living in misery.

The prototype of foreign investment consisted of transforming of Chilean saltpetre into direct foreign investment in the previous century. Lord North, who bought the company, did not contribute a single pound Sterling. He took out a loan from the Banco Hipotecario de Valparaiso, and used it to finance the purchase of the company. He then reimbursed the loan with the profits he made from saltpetre. At present, though much more complicated, procedures are essentially the same. Nowadays, Volkswagen owns large livestock ranches in the Amazon. They acquired them by investing the non-transferred portion of the profits from automobiles produced for the Brazilian market. These are Brazilian internal savings converted into direct foreign investment. They have nothing to do with foreign currency contributions or savings from abroad; though they do create foreign capital, whence transfers of profits abroad are derived. Yet, in the balance of payments, they appear as direct foreign investment.

The profitability of direct foreign investment is so great, that it easily explains the interest of foreign capital to continue "helping" development in South America. Anyone opposed to this is considered an enemy, and there is no opportunity for a rational discussion about the significance of foreign capital in Latin America. Foreign capital imposes its own will with blood and iron, and has its way with governments and people alike. An entire world is there for them to take; and converting the debt into direct foreign investment is the latest stage in this grand orgy. Small wonder then that Japanese capital is now also discovering the "kindness" dimension of direct investment. Japan's entire development was achieved through the strict exclusion of all foreign capital from Japan; and now that they have reached a high level of development, they are in a position, indeed they wish, to partake of the feast. In other words, Japan is discovering the importance of direct foreign investment for development purposes. If they had made this discovery 100 years ago, Japan would today be an underdeveloped country, similar to any other country in Asia. The United States discovered "kindness" for free trade after the Second World War in a similar manner. If, like the countries of Latin America, they had discovered it in the previous century, the United States would today be in the same situation, exporting tobacco and cotton.

The theory of imperialism from Hobson to Bucharin and Lenin has erred in believing that the main capitalist countries would transfer surpluses to the colonial countries, known collectively today as the Third World. They have never done so in the past, and will not do so in the future. During the most dynamic period of direct foreign investment in these regions, from 1870 to 1928, England had a continuous negative balance of trade. This meant that they had imported surpluses and had

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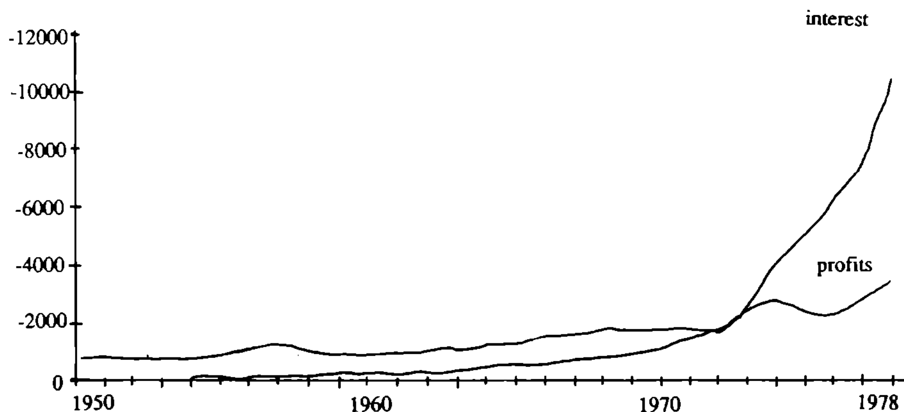
financed their colossal direct foreign investments by mobilising the internal savings of the countries in which they were investing.

It is obvious that there can be no talk of participation of external savings through this direct foreign investment. There is not even any initial contribution, unless it be the boats of Christopher Columbus and the arms they carried. Yet even Columbus himself financed his return voyage with profits derived from direct foreign investments he had left behind on the island of Nueva España in the Antilles.

During the fifties and sixties, direct foreign investment generated constant flights of foreign currency from Latin America. These were not, however, financed by the transfer of surpluses through a positive balance of trade for Latin America, but rather with foreign loans. The balance of trade tended to be stable during this period. All incoming loans were used to render possible this transfer of profits made on foreign capital..Nevertheless, these loans were themselves serviced by new foreign loans. This explains why the transfer of profits always generates more transfers in the form of interest on the loans, which go on growing exponentially. The interest paid during the fifties was still negligible. During the sixties, however, interest continued to increase in relation to profits, and went on to exceed them as of 1972. This was the first year when more interest was transferred than profits. Since 1972, interest paid has far exceeded profits transferred, and in 1984 interest paid was already 14 times greater than profits transferred. Nevertheless, this in no way offsets the fact that the transfer of profits is the original cause of the external debt of the fifties and sixties, while the external debt of the seventies entered a self-generating phase through the very servicing of the debt.

Graph No. 7

LATIN AMERICA: PROFITS AND INTEREST PAID ABROAD 1950-1978



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Right from the start then, the growth of the external debt of Latin America was linked to the capitalisation of unpaid interest on this same debt. From 1950 to 1982, the Latin American debt went on increasing because no surpluses were transferred to pay the interest on it. This unpaid interest was financed by new credits, which did nothing but capitalise it. Consequently, during this entire period, the debt continued to grow at the rate of interest in force, and therefore exponentially. In reality however, it grew at rates higher than the interest rate. This was because the new loans were not only used to finance the payment of interest for previous years, but for other purposes as well. During the fifties and sixties, these purposes entailed chiefly the transfer of profits on direct foreign investment in Latin America. As of 1974, in addition to these profits, the negative balance of trade started to play an increasingly important role - a state of affairs which lasted until 1982. From 1974 to 1982, this negative balance of trade rose to approximately $60 billion. It was the only long period during which Latin America had received a considerable economic surplus from abroad. It lasted eight years, though the surplus did not come from the major creditor countries, but rather from the oil-producing nations of the Middle East, and was only channelled through the banks of these major countries. A corresponding surplus (to that received) was transferred to the major creditor countries from 1983 to 1986, amounting to approximately $110 billion. These were the worst years in the history of Latin America in centuries. Nevertheless, this transfer could not compensate for the annual interest owed on the debt. From 1982 to 1986, the debt rose by some $100 billion.

Since 1982, the external debt of Latin America has been increasing exclusively in the form of unpaid interest. Latin America has been forced to achieve high positive balance of trade figures, which finance only the transfer of profits and the interest owed on previous loans. Since 1982, the movement of the debt can be explained almost exclusively in terms of the ratio between the balance of trade and payments owed for the transfer of profits and interest owed. The degree to which this positive balance of trade does not suffice to cover the payments due for the transfer of profits and interest constitutes a deficit which is automatically converted into a debt increase. The repayments due are so great, that in comparison with them other headings become virtually irrelevant. On the other hand, the interest due exceeds the profits transferred to such an extent, that we could venture to simplify matters by saying that today, the unpaid interest (through the balance of trade) automatically determines the increase of the debt.

The positions can be summarized as follows: in the five years from 1982 to 1986, the interest owed was $200 billion (i.e. $40 billion per year). The positive balance of payments could transfer surpluses of approximately $100 billion. Interest due which was not paid by this transfer was converted into new debt. This debt was consequently built up by the capitalisation of unpaid interest. In this way, the phenomenon of self-generating spiralling achieved perfection.

Since 1982, Latin America has, through transfers of surpluses, managed to pay approximately half of the interest owed on its debt. The other half is thus capitalised as new debt. This means that since 1982, the external debt has been increasing approximately at a rate equal to half the rate of interest in force. This high rate of increase can change only if there is a change either in interest rates or in the portion of interest which Latin America is able to pay by transfers of surpluses through the

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balance of trade.

Undoubtedly, this development of the debt must be considered in the context of the future economic development of Latin America, especially its exports. As long as this rate of automatic growth of the debt exceeds the growth capability of the continent, especially in terms of its exports, the ability to pay the debt will continue to diminish. When the debt rises faster than exports, the portion payable by the positive balance of payments decreases, while the debt increases even faster. This is exactly what has been happening since 1982. While Latin American exports have been stagnating, the debt continues to grow. Exports amounted to $87 billion in 1982; they went up to $97 billion in 1984, and dropped to $81 billion in 1986. The major effort to export did not result in an increase of exports, but rather in such a deterioration in terms of trade, that exports dropped.

Nevertheless, this stagnation in exports fuels the fictitious character of the entire debt.

The debt spiralling has turned the credit policy of the banking system into a shield that has been used to conceal the true facts. Today in Latin America, the debt is not growing as a result of credits granted by the banks. Indeed, the situation is exactly the opposite. If the banks were to refuse to grant any new credits, the debt would grow by the same amount. The banks have no influence over this situation. When they refuse credit, the debt grows directly through the capitalisation of unpaid interest. When they grant credit, these loans develop the capitalisation of unpaid interest in another form. The only influence a bank can bring to bear is the form of the increase of the debt, not the fact itself.

The situation in Central America, however, is not the same as that in Latin America, where in general, since 1982, the debt has been growing through the sheer spiralling effect, i.e. that of compounded interest. In Central America, on the other hand, additional financing continues to function alongside this spiralling, and this additional financing covers a negative balance of trade. The explanation for this lies both in political motives and in reasons connected with the structures of the Central American economies themselves. The negative balance of trade results in a greater increase of the debt, which is explained simply by the debt spiralling phenomenon. For this reason, the debt of Central America has been growing at rates higher than the Latin American average. In Latin America in general, the debt has been growing since 1982 at lower rates than the interest rates in force, while in Central America it has been growing at higher rates.

In light of the above, a more general judgement on the role of foreign capital in development may be formulated. This participation by no means entails any significant contribution of external savings for the recipient country. At no time whatsoever have there been any indications of any significant flow of savings from industrialised countries to developing countries. Foreign capital makes profits in foreign currency on capital raised through the mobilisation of the internal savings of the recipient countries. And this is the root of the entire debt problem.

Foreign capital is able to carry out this capitalisation of internal savings for its benefit, because the countries of Latin America have given up on their national development, handing development tasks over to foreign capital. As a result they have a debt that will hinder any development for the majority of them well into the fore-

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seeable future. This Latin American behaviour contrasts sharply with that of the major creditor countries at the time of their own development and industrialisation. They were able to develop because they did not hand the task of their own development over to foreign capital. Japan is the most flagrant case in point in this regard, because this country never permitted any foreign investment, and accepted financing through loans only as an exception.

Latin America has swallowed a myth created by foreign capital itself so that it might break into the Continent. Instead of bringing about development, foreign capital has led Latin America to the present impasse which threatens to put an end to any development policy whatsoever for any and all foreseeable future. This myth presents foreign capital as the participation of foreign savings in the development of the host country and as an agent fit for the development of the developing country. It is a myth created by the dominant theory in the major industrialised countries and adopted and implemented by foreign capital.

The catastrophic results which the participation of foreign capital has had on the development of Latin America deprive this myth of any authority. Development has to be national or regional where foreign capital can participate only on a marginal basis. Latin America is going to have to learn this lesson. As economists see it, however, what is needed is a theory of capital suitable to the situation which has been produced.

III. STRUCTURAL ADJUSTMENT AND THE MAXIMUM SURPLUS TRANSFERABLE BY THE BALANCE OF TRADE

As from 1982 in particular, the IMF and the World Bank started talking about the need for structural adjustment in Latin America. In fact, the decision taken by commercial banks to start collecting the Latin American debt, entailed profound changes in the all economic structures of the continent. Up to that point, new credits were granted to finance previous ones. At present, repayment is demanded in cash. No payment possibilities have been offered within the development structures generated, however. The structures will have to change if the debtors are to be able to pay. Today, even the IMF and the World Bank have started talking about the need to change the structures.

Up to this point, only the left on the continent had spoken of changing the structures. What it meant was a necessary change in the economic and social development of Latin America. The structures had to change in order to be able to ensure this development in the future. According to this point of view, the structures of the capitalist system itself have to change. In adopting this "change of structures" phrase, the financial bodies mentioned changed its meaning by re-interpreting it completely. It now became a matter of a change which will postpone the development tasks of the continent in relation to a radicalisation of capitalism, and replace the organised, interventionist capitalism of the fifties and sixties by a bare, antisocial version. The World Bank report on Chile, as early as in 1979, was entitled: "Chile, an economy in transition." Not only did extreme capitalism expropriate the phrase "change of structures," but also that of "economy in transition," snatching them away from South American

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people's movements.

In fact, this radicalisation of capitalism had already been implemented in the seventies, especially by the totalitarian National Security regimes of Chile, Argentina and Uruguay. Any and all systematic development policy was declared invalid, especially the Latin American developmentalism of the fifties and sixties, which had relied on a policy of substitution of imports. The criticism that socialist movements had hurled at this developmentalism came to be accepted, to wit: a development policy entails a profound change of structures. Nevertheless, another conclusion was drawn: Let us put an end to any development policy and strive for the survival of capitalism by transforming it into extreme capitalism.

The policy of extreme capitalism - the policy of the total market - introduced in the seventies, was used from 1982 on to (re)structure the economies of Latin America in relation to the transfer of a maximised surplus to the major creditor countries, the lords and masters of the external debt of Latin America. The thesis of structural adjustment was re-formulated as from 1982 into the concept of an extreme capitalism bent on creating the structural conditions needed to transfer the greatest possible surplus from Latin America to the major developed countries. Today, structural adjustment means the transformation of Latin America in relation to an extreme capitalism capable of transferring a maximum surplus to the major developed countries. The phrase "structural adjustment" refers to this policy, which places the transformation of capitalism vis-à-vis the total market at the service of the transfer of a maximum surplus to the centres of the capitalist world.

The development-oriented capitalism of the fifties and sixties was not suitable for transferring surpluses to the centres. The substitution of imports occurred in relation to the internal market; it did not liberalise imports, but only replaced imports of finished products by imports of equipment to produce these products. For this reason, it did not save imports, but merely exerted pressure to acquire more imports for the development of internal markets. Since the fifties, direct foreign investments have been playing an increasingly major part in this process. Foreign multinationals appeared on the internal markets of Latin America and made their earnings in national currencies. Nevertheless, they had to transfer their earnings in the currencies of the major industrialised countries. They did not earn foreign currencies, because they worked in the internal markets; yet they needed foreign currencies to transfer their earnings in the external market. The substitution of imports, which was at the base of this action, could not propitiate foreign currency for these transfers of earnings. To make this transfer through the balance of trade would have meant dealing a blow to the very source of these earnings, i.e. the internal market of the Latin American countries. Consequently, the multinationals themselves urged the mobilisation of external credits which would enable them to carry out such transfers, without affecting the internal market in which the earnings were made. It is no coincidence that the so-called aid for development on the part of the major industrialised countries started in the fifties. It was actually aid for the transfer of the earnings of foreign companies. At no time did this so-called aid facilitate any transfer of surplus from the major industrialised countries to Latin America. This can be shown by an analysis of the balance of payments. During the fifties and sixties, Latin America had a stable, if fluctuating balance of payments with the major industrialised nations (see Graph No. 4). There

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were no surpluses coming in, but neither were any going out. Profits which did go out, were paid by credits, and credits were serviced by new credits. At the same time, Latin America paid all its expenses and received nothing from abroad. As to direct foreign investments, they were financed by Latin American resources and never by surpluses transferred from the industrialised countries to Latin America. They did not bring in foreign currency, but they generated expenses in foreign currency, i.e. profits. And from these profits was derived, during these two decades, the external debt which formed the base of the subsequent external debt.

The aid for development during these decades was no more than an internal expense on the part of the major industrialised countries, where this aid went from one pocket to other, channelled through the accounts of Latin American governments. A major industrial State paid this aid, and the Latin American State handed it over to the multinationals for earnings made on the internal markets of Latin America. All the expenditure of Latin America was paid by the Latin American balance of trade, including all its investments, among which the direct foreign investment. Given this framework, a foreign company can go on operating until the transfers of its surpluses are no longer feasible.

This is precisely what happened between 1970 and 1974, and thus before the energy crisis. During those years, interest paid by credits exceeded transfers of profits. Consequently, interest on financial capital started to take priority over interest on productive capital. At the same time, a strong reaction against capitalist developmentalism surfaced, because financial capitalism was trying to reverse this process and multinationals could no longer impose their points of view. When this moment came, postponements were still possible, but solutions along the lines of the developmentalism of the previous decades were not.

At this same time, Latin America began to become aware that foreign capital had in fact contributed nothing or next to nothing to its development. During the sixties, a series of studies appeared, particularly in Chile, which argued that all the direct foreign investment in Latin America was produced by resources from the continent itself, with the exception of an estimated 15% in initial contributions transferred in foreign currency from the major industrialised countries. The rest had resulted from internal financing or re-investment of earnings made in Latin America (see Caputo/Pizarro, Desarrollismo y Capital Extranjero, [Development and Foreign Capital], Santiago, 1970). The participation of foreign capital in the development of Latin America was seen in its true light, i.e. that Latin America financed direct investment with its own resources, only to become completely dependent on this same investment. If the States themselves had assumed responsibility for the corresponding investments, there would be neither the problem of the transfer of profits nor the problem of the debt derived therefrom, and the development could have been the same and probably even greater.

The crisis of development-oriented capitalism, which came to a head in 1970, was nevertheless postponed because of the energy crisis of 1973. The latter produced liquidity in the financial system, resulting in great availability of credit. The myth of foreign capital being still in vogue, transfers of profits and interest payments on credits continued to be financed by new credits, until the crisis erupted once again in 1982. Today, the consequences of having handed the development of Latin America

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over to foreign capital have managed to suffocate the development policy itself completely. This is happening under circumstances, in which the interest on financial capital far exceeds the interest on productive capital - which was not the case in the seventies. The policy of development has today been replaced by the policy of extracting the maximum surplus, come what may for the development of Latin America. This policy has been christened structural adjustment. There is no more talk of development, only of markets. Nor is there any talk of dependence, because dependence has increased by such leaps and bounds, that it has become prohibited. Talk now centres around the need to pay capital contributions. What is not said, is that these are fictitious contributions which were simply never received.

The policy of maximising transferable surplus has certain basic characteristics, all of which are likely to be encountered in the structural adjustment programmes being implemented in the continent:

1. Concentration of the economic functions of the State on the achievement of structural adjustments, to ensure the transfer of a maximum surplus to the major industrialised countries.

2. Substitution of subsidies of a social nature by subsidies to the financial system.

3. Professional orientation of any economic policy to increasing exports.

4. Policy of destruction or restriction of national development through the liberalisation of all external markets.

5. Maximum privatisation of governmental, social and economic functions, especially in health, education and welfare.

6. Weakening of the social functions of the State, including those of the State itself.

7. Increasing of the repressive functions of the State or of particular semi-public organisations (military-police state).

8. Weakening or destroying of people's organisations and denouncing of their activities.

9. A policy of promoting foreign capital participation in all economic activities, thus recreating the problem at hand in need of solution.

Behind the creation of an economy based on the maximum transfer of surpluses through the structural adjustment policy, lie certain less obvious reflections worth resuming. It is not a matter of just any type of surpluses produced in Latin America, but only those which appear in transferable currencies. Therefore, all surpluses which cannot be transferred can be destroyed. This explains why only those surpluses which appear in the balance of trade of Latin American countries have any meaning for this model. What is required is to maximise the positive balance of trade in order to maximise the transfer of surpluses to the major industrialised countries. Consequently, structural adjustment must perforce cause the entire economic policy to revolve around the balance of trade. When this balance increases, it is good; when it decreases, bad. This is the principle behind the idea of structural adjustment. What is needed is simply to increase exports and decrease imports, reducing all economic activity to this simple principle. Therefore, all investment is concentrated on export activities, and investments in the internal market are eliminated as much as possible. Of

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course, in order to eliminate investments for the internal market, surpluses produced therein are destroyed as well. External surplus destroys internal surpluses. At present, however, it is only a matter of external surpluses.

Theoretically speaking, the maximisation of transferable surplus by the balance of trade cannot be as high as the volume of exports themselves. It is not possible to transfer all revenue from exports, because necessary imports are needed to maintain the production of exports and to go on developing it. It is also necessary to maintain an entire activity required in order to impose on the country an economic model of maximum transfer of surpluses to the major industrialised nations. The export-based economy must continue to function, with all its implications, including a state apparatus capable of imposing on the population this situation whereby surpluses are extracted on behalf of the major industrialised countries. This explains the enormous importance that structural adjustment has given the repressive organs of the State, i.e. the army and the police. Moreover, they have to be well paid, so that they can perform their function in imposing this perfectly irrational economic model, something which also entails the need for a lot of imports for them, both in terms of arms and consumer goods. The armies have to be transformed into forces of occupation of their own countries; this in turn means making their function economically attractive. The result is not an economy of impoverishment for all in relation to the transfer of surpluses, but rather an extremely polarised economy, with an extreme distribution of revenues. The masses are impoverished, while a few minorities become extremely rich. The masses in question include elements whose activity is indispensable if the economic model of maximum surplus transfer is to be feasible.

Consequently, there are a few key reasons which stand in the way of raising the maximum balance of trade to the level of the exports themselves. These have to do, on the one hand, with particularly expensive imported elements of the production for export, and the equipment needed to produce exportable goods. On the other hand, it is a matter of ensuring a high standard of living for a few social groups, who hold power, whether political or economic, due to the extraction of surpluses on behalf of the major industrialised countries. Consequently, these are the imports necessary for this standard of living, especially that of export capitalists and the repressive organs of the State, around which are formed many other groups which have to be taken into consideration, so that the overall system may function to extract surpluses on behalf of the major industrialised countries. The standard of living of the others is neither an economic nor a social problem, but simply depends on the efficiency and brutality of the repressive forces. Their job is to keep that standard of living as low as possible, so that the major industrialised countries can receive as much as possible.

These remarks explain why a positive balance of trade, which can be transferred as surplus to the major industrialised countries, attains only a specific percentage of the overall exports. For all Latin America, this balance has been fluctuating between 20% and 30% of their exports since 1982. Given the pitiless manner with which structural adjustment has been imposed in Latin America, this can be considered as the de facto maximum average of transferable surplus from the continent. No repressive force in the world would be capable of achieving much greater transfers. What can be extracted is already being extracted with blood and fire.

Nevertheless, this surplus quota is not the same for all countries, being greater

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in some and lesser in others. It is much less in Central America, given the economic structure and the political crises this region is experiencing. An increase in repression together with structural adjustment will neither achieve, nor avoid a situation whereby for Central America as a whole the balance of trade will go on being negative (since 1982 between 20% and 30% of exports). But it has reached its possible and bearable minimum.

It is by no means certain that such a great transfer of surplus from Latin America can be sustained. Poverty is on the increase, and this in turn nurtures the risk that the extreme repression currently practised in Latin America might not be able to control and pacify the population.

The transferable surplus we are speaking of is not a trade surplus, but a surplus which is measured by the balance of trade according to the price of exported and imported products. It does not depend solely on the physical quantities of the products which are included in the balance of trade, but also on their prices. Specifically, the pressure exerted by the policy of structural adjustment in favour of increasing exports has, since 1982, led to a deterioration in exchange rates greater than the usual decline in previous years. As different countries are exporting similar or the same products, the pressure to increase exports destroys the prices of the products exported through the competition among countries. Pressure to export destroys export prices, while for debt repayment purposes only trade surpluses can be taken into consideration, and these tend to decrease as a consequence of the deterioration of exchange rates. This trend towards a deterioration of exchange rates is constantly being worsened by the protectionist measures of the major industrialised countries. The latter force debtor countries to an export race, but at the same time use protectionism to make it difficult for the products of those debtor countries to enter their markets, allowing them to enter only at very low prices. As a result, the total real surpluses increase far more than trade surpluses, but all they mean to Latin American countries is simply an additional indebted gift to the major industrial countries, who never mention it.

We may conclude from the above that: a Latin American transferable surplus of $20 billion per annum is proof of a positive balance of trade for Latin America and a corresponding negative balance of trade on the part of the creditor nations. But the loan contract contains no stipulations obliging the creditor country to ensure a negative balance of trade corresponding to the debtor country's obligation to pay, so that the latter may in fact be able to pay. The obligation to pay is contracted without any agreement on the conditions of payment. Consequently, the creditor country is free to accept or reject a negative figure in its balance of trade with the debtor country. On the other hand, the debtor country may not demand any conditions which would render it able to pay. Its obligation to pay exists regardless of the objective conditions to do so.

The promise to pay is therefore made at two levels:

1. The monetary promise binds the debtor legally to fulfil the payment obligations accepted when the loan was negotiated. According to this promise, the creditor may exert pressure in the event of non-payment.

2. The real conditions of payment, which may be summarised as conditions to render possible a negative balance of payment for the debtor country corresponding to

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the payment obligations negotiated, and therefore, an equal negative balance for the creditor country. The creditor country can destroy the real possibilities of repayment arbitrarily by not accepting a negative result corresponding to its balance of trade.

Its power lies in that fact that the creditor country can call in the monetary payment of the debt and impede the real conditions of repayment. By being able to apply pressure as a result of the monetary non-payment of the debt, the creditor country can make it impossible for the debtor country to repay. In this way, it can transform itself into absolute lord and master of the debtor country, and control the domestic and foreign policy of the latter. The debtor country has no riposte.

The current policy of the IMF and its virtually absolute power in the Third World are derived from this fact. It obliges debtor countries to orient their entire economic policy exclusively to the repayment of debt; however, the creditor countries themselves have rendered such repayment impossible by refusing to admit a negative result for their balance of trade corresponding to the payment obligations of the debtor countries. Moreover, from what IMF or US government officials are saying, it appears that they do not even know that repayment of the loan depends on a negative result in the balance of trade of the creditor country corresponding to the payments debited. This fact is indeed rarely mentioned.

As a result, there is ever mounting pressure on debtor countries to go on increasing their exports. These countries consequently get into an export race and compete for the markets of the creditor countries, i.e. the developed countries of the capitalist world. However, protectionist measures by the creditor countries make it difficult for the products of the debtor countries to enter their markets. They do not actually hinder the entry of these products, but they do make it difficult. As a result of the exporting competition among debtor countries on the one hand, and the obstacles which the creditor countries place in the way of the entry of the products of the debtor countries on the other, the export effort ends up being a rapid increase in exports measured in physical terms, and a drop in prices with the accompanying deterioration of the terms of trade. Exports measured in current market prices stagnated and even went down in 1986, while exports in constant prices continued to rise. Assets are transferred without any corresponding transfer in monetary terms of the trade surplus, and therefore, without any corresponding ability to pay resulting from this. The outcome of the desperate effort to export is to hand over products at lower prices. In practical terms, rises in exports are a gift to the creditor countries.

For the major industrialised countries, however, this is a welcome gift. In the case of trade exports, they pay, even though they pay badly. In the case of the deterioration of exchange rates, they receive, without giving anything in return. Structural adjustment feeds this mechanism. It obliges the debtor countries to keep on exporting without any consideration, except that of transferring the maximum surplus. To this end, an additional mechanism is created, one which reduces the prices of exports, thus creating a mechanism which hands trade exports over gratis, and thus tightening the screw even more. In the long run, however, they tend to diminish what can be considered as the maximum transferable surplus from Latin America. But this will only serve as an argument to exert even more pressure on Latin America to orient its economic policy exclusively towards exports in order to produce the maximum transferable surpluses.

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The result of structural adjustment is an economy of maximising surplus transfers to the major creditor countries; from the point of view of the latter, it is an economy based on the maximum extraction of surpluses. Former economic situations which had also been based on the principle of the maximum extraction of surpluses are thus repeated in different forms. This is a type of colonial economy, the chief object of which was the extraction of surpluses in the form of precious metals. Then in the nineteenth century came the liberal economy, which maximised the extraction of raw materials. The surplus extraction economy was interrupted by the development of the fifties and sixties, which, for some countries, had already started in the thirties. This developmentalism interrupted the main orientation of the economy of Latin America towards the extraction of surpluses. It did so through a policy of development based on an economy that was balanced in terms of its foreign relations, i.e. on an economy which neither received nor transferred surpluses. Nevertheless, the dominant participation of foreign capital in this economy led to the present-day situation, whereby the economy of Latin America has once again been transformed into an economy of maximum surplus extraction. It goes on being, above all, an economy based on the extraction of raw materials, although this time it is disguised as the repayment of an unpayable external debt.

The fact that the debt is unpayable is of central importance, for what it comes down to is extracting the maximum. The fact that the debt is unpayable has certain advantages. While extracting a maximum of surpluses from Latin America, a policy of apparent generosity is touted at the same time, one that treats the unpayable parts of the debt as "help" without ceasing to seize the maximum possible surplus. In paying this maximum, Latin America must on top thank its exploiters for their generosity in making concessions on that part of the debt which is impossible to pay in any case. While having paid more than $100 billion since 1982, Latin America has increased its debt by another $100 billion. Therefore, it received "aid" equivalent to this sum, even though it had transferred the maximum possible surplus to the major creditor nations; and it has to be thankful for the generosity of this aid. Greed and larceny have been given a new name, and are now called "aid." The victim of pitiless pillage has to give thanks to the perpetrator of this pillage for its help. If Latin America goes on receiving this type of aid, by the end of century it will find itself owing more than 1 000 billion dollars, its people in abject poverty, and its natural resources destroyed. To paraphrase Kant, "God save Latin America from its friends, for it can handle its enemies on its own." What all this boils down to is the eternal policy of the usurer. The ultimate goal of the usurer is to render a debtor's debt unpayable. Then, it cultivates an image of generosity while exploiting the debtor to his grave. To his last dying moment, the debtor has to go on thanking the usurer for not having taken from him what was impossible to collect.

IV. THE FUTURE OF THE EXTERNAL DEBT OF LATIN AMERICA

There is no solution to the external debt within the limits of the current international financial system. All attempts to solve this problem have up to now only worsened it. For this reason, the external debt of Latin America and the Third World does not constitute a crisis exclusive to those continents. It is rather a crisis of the interna-

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tional financial system and the participation of foreign capital in the development of the Third World. This entire system is in crisis. If the debt today is unpayable, it is not because of the irresponsible conduct of some, nor because of the bad intentions on the part of the major creditor countries. Rather it has been produced by the very system of international relations.

We can comment on three types of solution that keep cropping up in the current on-going debate. They clearly show precisely the dead-end street which has been reached. A solution is sought mainly through a partial cancellation of the debt, through its conversion, or through an easier access to new credits.

1. A partial cancellation of the debt

The effect which a partial cancellation of the debt can have in Latin America is derived from the ratio between the maximum transferable surplus and the interest due on the debt. We have already mentioned that during the last few years, the surplus transferred by Latin America to the major creditor countries covers approximately half of the interest due. In this situation, only half of the debt is serviced through surpluses from Latin America, while the other half is paid by new credits or simply by the capitalisation of unpaid interest. At the current rates of interest, the surplus transferred does not cover more than half the interest due. In economic terms, this means that half of the external debt of South America is simply fictitious. It is not nor can it be serviced.

In light of the above, if half of the debt of Latin America were to be cancelled, the repayment situation would not be relieved in the least. At current rates of interest, the maximum of transferable surpluses would suffice to service exactly half this debt. After this reduction, therefore, Latin America would owe in interest exactly the same amount it is paying today. The only effect such a measure would entail, would be the stabilisation of the debt. The automatic growth of this debt would be halted. (3).

At the given rates of interest, therefore, the external debt of Latin America today has a market value equal to half of its nominal value. In actual fact, in the markets where transactions over the Latin American debt are taking place, the market value currently applied is approximately equal to 50% of its nominal value (this is the case of Mexico and Brazil for example). What this means in specific terms, is that a partial cancellation of the debt would be relevant for Latin America as a whole if it were greater than 50% of the debt's nominal value. This presupposes, however, that a transfer of trade surpluses equal to that which was imposable between 1982 and 1987 can be effectively maintained in the future - something which is not probable.

This goes to show that the thesis of a partial cancellation of the debt is to a greater extent in the interest of the banks covering the debt that Latin America has to repay. There are indeed obvious advantages for the banks. By cancelling up to half the

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(3) If there is no cancellation of the debt at all, the same effect could be brought about by reducing the rate of interest by half. Here as well, the debt would be stabilised, because the surplus transferred would now cover the entire interest due. Of course, solutions lying between these two extremes are also conceivable. We shall go on with our discussion, however, with given rates of interest.

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debt, they can make a show of generosity before the whole world, without renouncing a single effective repayment. Moreover, they can make their claim for repayment of the remaining debt appear legitimate. And yet, the maximum transferable surplus to the major creditor nations goes on. Thus, these creditors go on collecting as before, while being able to give the appearance that they have provided as much aid as can be expected of them. In reality, nothing changes but the appearances.

The partial cancellation of the debt has another advantage for the banks. If it is proved - from the point of view of the extraction of surpluses on the part of the major creditors - that the debt is indeed unpayable, then there is a problem. The debt spiralling causes the unpaid part of interest to rise exponentially, creating thus an ever greater fictitious capital. This fictitious capital necessarily becomes part of a bank's assets. The more obvious this fictitious character, the more likely it is to cause a crisis in confidence and threaten the very existence of the bank itself. Consequently, the bank has to see to it that the fictitious capital does not grow excessively. A partial cancellation of the debt could be an efficient means to this end.

In any event, any cancellation of the debt which does not substantially exceed 50% of the nominal value, is more in the interest of the bank than in that of the Latin American countries, without being an act against its interest. In order for such cancellation to be more in the interest of Latin American countries, it would have to be total and complete or to come close to such a situation. Only in this case would the transfer of surpluses to creditor countries diminish effectively and to a considerable extent.

2. The conversion of the external debt

The thesis of the conversion of the debt refers to the exchanging of debt securities for direct foreign investment in the debtor countries. The debtor country pays for the securities in internal currency, so that it may be invested in the debtor country itself. Therefore, the external debt is replaced by direct foreign investment. The debt thus goes down, while direct investment goes up.

This solution is not all that clear either. It does not relieve the situation of surplus transfers to the creditor countries, but only changes the legal titles, in the name of which these transfers are carried out.

In economic terms, there is no difference between paying interest on loans or transferring earnings on capital. The situation may even get worse. At least loans have fixed prices, and thus, known repayments. Direct investment, on the other hand, may and often does generate transfers of profits much greater than the rates of interest in force. An overall solution cannot in any case be effective. Even if all Latin America were to be converted into direct foreign investment, it would not in the least be able to eliminate the existing external debt. The sale of all Latin America does not cover the value of its external debt.

3. Access to new credits

Using the previous analysis as a point of departure, we can now proceed to discuss the problem of new credits at three levels:

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Level a

Refinancing credits from interest which a maximum of surplus has not managed to transfer. These are in fact credits on the size of which the bank has not the least influence. They cover the difference between the maximum surpluses transferred and the interest paid. If the banks do not grant these credits voluntarily, they are forced to grant them as a result of the capitalisation of unpaid interest. This is the only type of credits that the majority of Latin American countries receive today, Central America being the only exception to this rule. They are usually granted when the debt is renegotiated. It is customary then to speak of "fresh money," a rather euphemistic term which conceals the facts. The bank grants those credits in order to keep up the fiction of the stability of the nominal total debt. The countries of Latin America seek these credits in order not to fall into open non-payment, which could have many negative repercussions on legal transactions and boycotts on the part of the creditors. Yet this does not change the fact that even if the bank does not grant these credits voluntarily, it has to grant them against its will. As it is impossible to collect through additional surpluses transferred, unpaid interest is capitalised. In this general case (where interest is capitalised) the external debt, be it through bank credits or through open non-payment, increases at a rate lower than the rate of interest. The difference depends on the ratio between the maximum surplus transferred and interest paid.

Level b

Additional credits to reduce the quantity of surpluses transferred to the creditor countries. These would be credits granted voluntarily which would relieve the burden of the current debt. They could reach a point whereby Latin America would neither transfer nor receive any surplus, i.e. the situation that existed during the fifties and sixties. In this case, the entire servicing of the debt would be paid by new credits. The external debt of Latin America would therefore increase exponentially with a rate of growth equal to the rate of interest.

Level c

New credits, which would enable a transfer of surpluses from the creditor countries to the countries of Latin America. These would be credits covering not only the entire servicing of the existing debt, but also a negative balance of trade, making it possible to transfer surpluses to Latin America in order to provide an impetus for its development. Granting new credits at these levels would mean an exponential increase in the debt of Latin America at rates greater than the rates of interest. Only in this case could there be any cynicism-free talk about economic aid. There have never been credits of this sort for any significant period for Latin America as a whole.

In the present situation, all proposals for access to new credits refer to credits analysed under Level a. This was the gist of the Baker Plan. Given the debt spiralling phenomenon, these credits have no bearing on the development of Latin America which is in a state of paralysis precisely because of the maximum transfer of surpluses to the major creditor countries. Moreover, in this present situation, there are no options for containing the spiral growth of the debt; it goes on increasing beyond the possibilities of future repayments, thus creating ever more fictitious capital.

The spiralling phenomenon will make the debt grow in future more than the

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foreseeable growth of both exports and the gross domestic product of Latin America. The ratio between the debt and exports is increasing, and this means that the ability to repay in future continues to diminish (Graph No. 2). Given a situation where at an interest rate of approximately 10%, the maximum surplus suffices to pay only half of the interest due, the debt, through its own spiralling, is going up by 5% annually. Only a parallel increase of 5% in export capacity can maintain the stability of the debt-export ratio, and thus sustain today's ability to pay for the future. The export trend is rather one of stagnation, however. Consequently, the ability to pay is diminishing, and the part of the debt that was considered fictitious goes on increasing.

This same argument applies even more to additional credits in the other levels. In order to reduce the amount of surplus transferred from Latin America, the debt would have to increase even faster, until it reached the point where the spiralling phenomenon would have it grow at the same rate as the interest rate, i.e. the point when the transfer of surpluses ceases. The debt-export ratio would not be affected unless the rate of interest were equal to the rate of increase in exports from Latin America, and such a policy of indebtedness would not affect the ability to pay in the future. Nevertheless, the rates of interest continue to verge on such levels as to exceed the export growth rates of Latin America several times. Therefore, any policy intended to improve access to new credits would soon lead to a new crisis in the financial system as serious or worse than the crises of 1972/74 or 1982. It would be simply a policy of crisis postponement which would aggravate imbalances that are already pointing to a new crisis.

The result of all this is that the crisis of the external debt of Latin America is in no way simply a debt crisis; but rather a crisis of foreign capital and its participation in development, and even of the international financial system itself. The debt is a product of the international financial system, and will only disappear if this system disappears as well. The external debt has nothing to do with savings of the major creditor countries being invested in Latin America. There have never been any investments of savings from creditor countries to Latin America, as the latter's balance of payment clearly shows. In the only period during which there was a certain considerable flow of surpluses from creditor countries to Latin America, this influx came not from the major industrialised countries, but rather from the oil-producing nations of the Middle East, channelled through the banks of the former. Moreover, this flow did not last more than seven years (from 1974 to 1981). In 1985 Latin America had already again transferred more surpluses to the major creditor nations than it had received during this entire period.

There is in fact a triple crisis, i.e. the international financial system, foreign capital and the system of world markets. The three can nonetheless come under the crisis of the international financial system which is at the root of the others. The international financial system operates on foreign capital and depends on the existence of the system of the current world markets. The debt appears within this system, being in fact a product thereof. The international financial system transforms the economic relations between Latin America (and the Third World) on the one hand and the major creditor countries on the other into unpayable debt. These relations per se do not contain a single reason for the existence of the debt. The financial system on the other hand is such that it invariably leads to this type of indebtedness. The flow of surpluses

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does not explain the surge of the debt. Recently however, the economic forms within which the surplus flows are transferred do explain it. The financial system has transformed a relatively balanced flow of surpluses into unpayable debts on one side. It transforms temporary economic problems into external debt the way hell transforms ephemeral sins into eternal punishments. This is precisely what has to be explained. The process went from the transfer of earnings on direct foreign investment to indebtedness, turning this indebtedness into an exponential curve resulting from an unpayable debt; the subsequent attempt to repay it had destructive repercussions on the terms of trade in export markets. As a result, the presence of foreign capital, the surge of an unpayable debt linked to completely irrational rates of interest, and the deterioration of terms of trade became interconnected. The presence of foreign capital led to the continuous increase of the debt and was turned into a decisive factor for both the destruction of the social division of labour and of development, as well as international trade. Foreign capital, called in to contribute to the development of developing countries, turned out to be the main obstacle to this development, i.e. a decisive stagnation factor especially from 1982 on.

For this reason, the unpayable debt of Latin America constitutes a crisis for the international financial system itself. This system gave rise to the debt, though there was no intrinsic economic reason for it. None of the solutions proposed for the debt has the slightest chance if it is limited within the margins of this international financial system. A possible solution to the debt problem has to be more radical, the way the debt problem itself is radical. It is not merely a matter of a moratorium; but rather of exerting pressure aimed at establishing a brand new international economic order, starting with an overhaul of the international financial system. Simply cancelling the debt would create a new point of departure, which would give rise to the same problem a few years later, though this would of course provide some relief. Moreover, the debt is not unpayable in itself, but rather within the framework of the current international financial system. The same debt could be rendered payable within the framework of a new international economic order, if this order were to include a corresponding regulation of the markets with the necessary guarantees for Third World export prices.

The analysis of the origins of debt has given us certain key points which have to be taken into consideration when attempting a possible solution to the problem. We shall mention a few of these below:

a. The provision of margins for the role of foreign capital, including direct foreign investment, when assigning tasks for development. Foreign capital can contribute to development only in a few, exceptional cases. Generalising direct foreign investment contributes only to the indebtedness and in the end to the paralysis of any development. This is clearly demonstrated by the single existing case of capitalist development in this century: Japan developed by excluding foreign capital altogether.

b. The capitalist system is totally incapable of transferring surpluses from major industrialised countries to the developing world. Any and all attempts go through the very credit mechanisms in the opposite direction of the transfers. For this reason, there can be no participation in the development by means of credits to finance it. After a certain time, the credits themselves turn into an obstacle to the development they were

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intended to promote in the first place. Credits should be restricted to short-term credits for the financing of foreign trade, with recourse to long- term credits in exceptional cases only.

c. A policy on interest rates should take into account the fact that said rates give rise to exponential curves for the future. These exponential curves in turn give rise to unpayable, and therefore fictitious debts, if the rates of interest are greater than the growth rates of the economies in which the credits are used. This applies both to the interior of each one of the countries and to the international relations among them. Consequently, the maximum rates of interest have to be adjusted to the growth rates in force; in terms of international relations, this means that they have to be adjusted to the export growth rates. The golden rule of a bank should be: do not let interest rates rise above the growth rates of the economies in question (4).

d. There should be a regulation of markets between the developed and developing countries in the international system, analogous to that which has been established within developed countries between industry and agriculture. This regulation of markets and prices should determine in broad terms the flow of surpluses between developed and developing countries. This market regulation has recently been used to settle the debt repayment question. A possible repayment of the debt has to be foreseen when determining the prices of surpluses required in order to be able to repay it.

e. Developing countries must have free access to the technologies commercially available. Technology is knowledge belonging to humanity and should not have to be paid for.

A list of this sort will obviously stir the most passionate resistance on the part of certain countries which for centuries now have managed to monopolise the access to the riches of the world. The Third World, on the other hand, has very few weapons. And yet, one of its most powerful weapons is precisely its unpayable external debt. It has to use it therefore to coerce the major industrial nations to negotiate a new international economic order. The credible threat of a well-organised moratorium could be a decisive step in this direction.

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(4) In an economy with zero growth rate, this principle whereby the maximum rate of interest must equal the growth rate of the economy leads to the prohibition of the collection of interest on loans. This is in fact the conclusion that had been reached in the Ancient World and during the Middle Ages. The ancients did not do this because they did not understand the laws of the economy of their time, as neo-classical economists claim, but because they did understand them. They were, after all, written for their own time, and not for today. For all that, they never discerned that in a growing economy there could be a positive rate of interest the upper stable ceiling of which would be precisely the rate of growth of this economy. For their part, in order to sustain an unlimited rate of interest, neo-classical economists undoubtedly do so because they do not understand the laws of today's economy. For this reason, the current debt crisis is not only the crisis of the financial system in force, but also the crisis of the currently prevalent neo-classical theory of capital. This theory contributes nothing towards the understanding of this scourge of humanity, i.e. the external debt of the Third World. They cannot even explain it. Their major flaw lies in the fact that they conceive of interest rates as a price equal to other prices. They are therefore unable to perceive the fact that the rate of interest represents an exponential curve rather than a price which can be quantified when the buying-selling transaction takes place.

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V. A FEW THEOLOGICAL ASPECTS OF THE REPAYMENT OF THE DEBT

The repayment of the external debt of the Third World and Latin America has nothing whatsoever to do with the normal relations between capitalist countries. It involves a new wave of destruction for the debtors which can only be considered as usury in the vilest sense of the word. The creditor countries know this, as does the Latin American bourgeoisie who collaborate with the perpetrator of this plunder. That is why it reacts. But it does not react against the payment of the debt -- or does so only in rare cases -- but rather through a re-interpretation of the Christian tradition itself regarding the way in which a debtor is to be treated.

There is nothing more flagrant in this respect than the change in the Spanish and Portuguese versions of a sacred text of the Christian tradition referring to debt and the payment of debts. More specifically, it has to do with "The Lord's Prayer", the translation of which was conveniently changed during the seventies.

In "Our Father" there is a request, which in the former version - where it in fact corresponds precisely to the original - runs as follows: "Forgive our debts, as we ourselves forgive our debtors." (*) This corresponds to the traditional translation found in other languages. In the seventies, however, this was changed into the following: "Forgive us our trespasses, as we forgive those who trespass against us." (*) The reference to debt disappeared at the very historic moment when it could have had a real impact on conduct.

Taking into account the difficulties entailed in changing such ritual texts as "Our Father", the speed with which the new translation managed to prevail is astounding indeed. All the more so because it did not coincide with any known translation of the Bible at the time. The Catholic Church, the Protestant churches and other sects agreed to accept the new formula.

This change in fact demonstrates the bad conscience of some who defend the repayment of debt and who want to impose it on the Third World. To continue to speak about forgiving debts as a precondition to God's forgiveness of our own debt to him would have turned out to be very expensive for those who wanted to collect the debt. It is much cheaper to change the translation of a text, sacred though it be. Moreover it is somewhat more suitable for a world in which this debt has arisen. This is a world which has reduced all that is sacred to a simple calculation of its advantages, and which is not going to change its course because of the problem of the translation of a given sacred text. It appears that this is so self-evident, even to the churches themselves, that they accepted this manoeuvre without offering the least resistance. There is a sacred world of capital which is much holier than any other form of sacredness.

The meaning of the two translations is clear. In the first, repayment of the debt becomes unlawful, and the debtor country should resist. It has to resist, so that it too can stay on good terms with God. In the second, updated, true and essential translation, it is exactly the opposite. The debt must be repaid and the debtor has to repay it

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(*) Translator's note: The "traditional" version of the Spanish text is translated "literally" here, so that it may be contrasted with and distinguished from the updated version, which is very close to the "traditional" English- language version.

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even if it kills him. And if the debtors should offend the creditors who are collecting this debt to the death, the latter must forgive the debtors these offences, but keep on collecting the debt from them all the same.

At the same time, the new translation claims not to be political. The traditional translation is political and enters into worldly matters and preoccupations. The second pretends not to. Nevertheless, both are highly political. What distinguishes them is only the type of politics they tend to favour. And this proves that the debt does indeed have a theological aspect.

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APPENDIX

CALCULATION OF THE EXTERNAL DEBT OF LATIN AMERICA FROM 1950- 1986: DATA AND METHODOLOGY

The external debt of Latin America was calculated on the basis of the total expenditure in foreign currencies by the economies of Latin America between 1950 and 1986. The data used were in the main those published by CEPAL. All data for the period from 1950 to 1984 are taken from: América Latina y El Caribe: Balance de Pagos 1950- 1984. Cuadernos Estadísticos de la CEPAL No. 10, Santiago de Chile [Latin America and the Caribbean: Balance of Payments 1950-1984, CEPAL Statistical Publications No. 10, Santiago, Chile, 1986]. Data for 1985 and 1986 are taken from: Panorama Económico de América Latina 1986, CEPAL, Santiago de Chile, 1986 [Economic Panorama of Latin America 1986, CEPAL, Santiago, Chile, 1986]. For these two years we have estimated the corresponding figures which are not published in this last report. We started from an external debt for Latin America in 1950 of $2.213 billion, according to: Economic Survey of Latin America 1970, CEPAL, New York 1972, Table 80, p. 103.

The calculation is based on the following equation:
external debt
- Payments not covered by the balance of trade.
- Current balance (plus or minus)
  . Global balance (plus or minus)
  . Interest received
  . Errors and omissions (plus or minus)
  . Official transfers

We have not taken into account capital influx for direct investment and portfolio investment, entered in the balance of payments. We consider such capital as having been entered exclusively from internal resources resulting from foreign capital located in Latin America. It was essential to know the amount in foreign currency actually transferred from these major industrialised countries to Latin America, in order to estimate its effect on the debt. If, as we estimate, portfolio investment was made exclusively in domestic currency, while 15% of direct investment was transferred in foreign currency - something which seems quite probable - then the figures given below would have to be adjusted downwards by about $8-10 billion for the last few years (from 1983 on).

The heading "interest received" is of course included because these are payments of interest on deposits kept in the major creditor countries that were not transferred to Latin America. Consequently, no exchange currency was entered for the economies of Latin America, unless it was personal income for Latin Americans. This did not compensate expenditures in foreign currency by the economies of Latin America.

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Table 1

THE EXTERNAL DEBT OF LATIN AMERICA 1950-1986

YEAR	EXTERNAL DEBT
1950	2311
1951	3186
1952	4547
1953	4547
1954	5007
1955	5487
1956	7458
1957	9162
1958	9885
1959	11302
1960	12634
1961	13560
1962	15021
1963	16083
1964	17297
1965	17389
1966	18234
1967	20208
1968	22282
1969	25398
1970	28861
1971	32844
1972	38772
1973	44920
1974	54770
1975	68465
1976	88770
1977	99331
1978	121623
1979	146256
1980	182940
1981	244160
1982	288238
1983	323235
1984	350271
1985	359225
1986	381525

Note: Author's estimates.

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