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Debt Moratorium — a Magic Formula?

Debt moratorium — the word is increasingly inspiring the LDCs and scaring the developed economies. For LDCs it is a magic formula: being debtors altogether they all expect to win — and none to lose — from a general debt rescheduling and a subsequent wiping out of at least part of their external indebtedness accumulated over the past quarter century. More than in any other issue discussed in the context of a New International Economic Order they share a common interest in debt matters. In pressing for a world debt conference they hope to reap at least two benefits: First, the very readiness of industrialized countries to take part in such conference would automatically oblige them to offer significant debt relief. Secondly, debt renegotiation in a worldwide context would in effect guarantee debt relief not only to just a few LDCs but to every single of them (though perhaps to different degrees depending upon "objective" criteria to be established).

It is precisely because of these considerations that the creditor countries reject the idea of a generalized approach to the LDCs' debt problems. Adhering to the traditional case-by-case method promises not only to be "cheaper" but also to provide creditors with a lever to influencing the debtor countries' policies with a view to stabilizing their economies. In addition, widely divergent political and economic interests and the lack of an accepted leadership could make the developed countries' position at an international debt

conference quite vulnerable. Finally, at least some of them appear to believe that the LDCs' debt situation is really not all that serious and that some beneficial "invisible hand" will solve all problems some way or another — but in any case without causing any serious embarrassment to the rich "North".

That expectation is certainly ill founded. Indeed, due to the oil crisis the LDCs' already heavy debt burden has been increasing rapidly since 1974. According to World Bank estimates, non-oil LDCs' debts outstanding at the end of 1973 amounted to \$ 70 bn. Given their huge current account deficits their external indebtedness may well have doubled by the end of this year, raising amortisation and interest payments to a magnitude of \$ 15 bn p.a. or roughly one sixth of their export proceeds. Whereas it is true that with the progressive reduction of the oil exporting countries' surpluses, on the one hand, and the worldwide economic upswing, on the other, the LDCs' external disequilibria are bound to diminish, they will nevertheless continue to run sizeable deficits — and thus accumulate debts — for a long time to come.

Is there any chance for these debts ever to be repaid? Prospects are gloomy. Simple balance-of-payments arithmetics shows us that any net reduction of external indebtedness requires an equivalent surplus on current account, i.e. a net transfer of real resources from developing to developed countries. Yet, one may well ask whether such resource transfer from the

Poor to the Rich is really desirable. Also there is no evidence whatsoever that industrialized countries (taken as a group) would in fact be prepared to "allow" LDCs to run such surpluses. The abundance of both tariff and non-tariff barriers specifically imposed against manufactured imports from LDCs rather points to the contrary. The very existence of these restrictions could indeed be interpreted as a renunciation of debt repayment on the part of developed countries. The question, therefore, is not whether or not a general refunding of debt is tolerable but how it is to be effected in non-disruptive fashion and whether it can be incorporated into a wider policy framework being inductive to continued and equitable growth of the world economy.

There is no easy answer to this question. Some of the approaches discussed at Nairobi on commodities and trade go into the right direction, others — e.g. the extension of automatic and unconditional credit facilities — are bound to aggravate rather than diminish problems in the long run. For an observer from outside it is always puzzling to see that (industrialized) countries sailing under the flag of economic liberalism, and which are strictly opposing the idea of a debt moratorium, are generally reluctant when it comes to applying their favourite theories to their own economic policy vis-à-vis the LDCs. Without a more equitable trade system debts are bound to pile up — and to be cancelled — also in future.

Hans-Eckart Scharrer