Book Reviews

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A Fate Worse Than Debt: A Radical New Analysis of the Third World Debt Crisis, Susan George, London, Pelican, 1988

Why do we find ourselves in crisis? Who is involved? What should we do about it? These are the questions identified and addressed by Susan George in this provocative and stimulating book on the Third World Debt crisis. Her major contribution is to demonstrate that the answers to these questions depend on the perspective of the investigator i.e. who is "we"? George believes that the "debt crisis" has been defined and analysed mainly in terms of the dangers of financial collapse. This neglects the "human side of debt". As a consequence of this emphasis the crisis is likely to be considered over once international financial stability is guaranteed. George argues that the real crisis is a more serious long-term one connected to the model of mal-development that has been encouraged and pursued in the Third World.

This book is divided into three sections. In part one she defines the problem by identifying the main actors and characterising their motives. She also explains and points to the weakness of the model of development that has been pursued. Chapter 2, on the operation of banks in the Third World, and Chapter 4, on the possible consequences of debt default, are quite interesting. Her anecdotes on the myopic operation of smaller US banks (pp. 30-32) are instructive. The banks would wish not to bear the consequences of this behaviour. In George's opinion this attitude clarifies the bankers version of privatisation "that profits should accrue to the private sector. Losses, on the other hand, ought to be offloaded on to governments or international bodies (i.e. taxpayers)" (p. 34).

George admits that she was prepared to "assign the role of global ogre" to the IMF when she began work on this book. She now feels that the IMF is merely the visible force of more fundamental and powerful interests. As an organisation the IMF could contribute to creating an equitable world financial system. However, this requires that it reflect the needs of *all* its members. For this reason concerted action by debtor countries is needed to alter the current balance of power.

In part two, George presents her analysis of the "human side of debt". In a number of case studies from Africa and Latin America she seeks to demonstrate how the development strategy evolved by the World Bank and now policed by the IMF has left the Third World in crisis. Much of the reference material for these case studies comes from letters and confidential sources. Some may question the reliability of these sources preferring to stick with the "facts" as contained in official statistics. Such persons would be well advised to find out something about the way in which official statistics are compiled in these countries.

The ground level reaction to crisis, as typified in the report on Zaire (pp. 109-11) illustrates the power of the human spirit to try to cope even in the most dreadful conditions. Our fellow human beings in the Third World have not given up in the face of adversity. Like the rest of us these people can find opportunity in crisis. Indeed a colleague of George's has suggested that the debt crisis itself is an opportunity in that it "helps to keep an overburdened government off the peoples' backs, and it prompts innovative solutions, born of despair" (p. 4). Although George does not fully share this view she accepts that "most authentic development is what people manage to do against official "developers like the World Bank" (p. 4). There are other lessons from history to suggest that crisis can often result in genuine innovation. The oppression suffered by the Basques in the aftermath of the Spanish Civil War contributed in no small way to the development and prosperity of the Mondragon project.

The question as to what should be done is addressed in part three. The IMF approach is evaluated using the case of Jamaica. Chapter 12 considers some recent proposals from the creditor side concentrating on the plans of Baker, Bradley and Camdessus along with private sector responses. This is a good guide to the plethora of suggestions that are often presented in highly technical terms. A lack of unity among debtor country governments means that the ability of the South to bring forward their own "solutions" is severely hampered. George considers the reasons for this lack of unity in Chapter 13. Again we see the innovative spirit here as George identifies strategies that people are formulating without waiting for inter-government unity.

George outlines her own 3-D solution — Debt, Development and Democracy — in the final chapter. She is motivated by the ethical principal enunciated at the beginning of the book — "those who reap the benefits should also pay the cost". The first thing to be said is that George does not favour a cancellation of the debt. The basis of her plan is an abandonment of the "mal-development" model. It requires that "debtors direct economic activity much more consciously away from international markets and towards the satisfaction of their own people's real needs" (p. 236). The plan involves "repayment" of debt, but in a way she terms "creative reimbursement". It is most easily explained for Sub-Saharan Africa where debt, which is largely official, is relatively small from the creditors perspective. There are two aspects of "creative reimbursement": reimbursement in cash and reimbursement in kind. The first involves establishing democratically appointed national development funds charged with the task of using funds (that would otherwise leave the country as repayments on debt) to finance projects and entrepreneurial initiatives. Payments made by a government in its *own* currency to the country's national development fund would trigger a reduction of its external debt (not necessarily one for one). Reimbursement in kind involves the countries of Africa getting credit against their debt for "preservation of their national heritage". The application of this solution to Latin America is more complex in view of the large private component in that debt. This would require an additional element linking debt service to exports and imports. Debtors would agree on a list of basic commodities to be imported from countries where it had creditor banks. The value of such imports would be counted against debt service. For present exports, limits would be placed on the *volume* of goods to be exported and high price year *values* would be credited against debt.

These ideas, as a package, are novel. They deserve to be debated and, if necessary, expanded upon. Susan George's book is forthright. It will provoke you; in some cases to agree with her but in others to disagree. It will certainly not bore you. Most of all, it will induce you to think about the debt problem and, in particular, to ask yourself the questions that Susan George addresses in the text.

Tom McCarthy

Latin America's Debt Crisis: Adjusting to the Past or Planning for the Future? Robert A. Pastor (ed.), Lynne Rienner Publications Inc., Boulder, 1987, 176 pages

"Debt Crisis Defeats Development and Democracy": This could surely have been a newspaper headline on a report on the two-day debt symposium, held at the Carter Center of Emory University, USA, in April 1986, on which the book is based. The stated goals of the book are: (1) "To explain a crisis preoccupying Latin America but perceived only dimly in the US"; (2) "To assess the costs of the current strategies for dealing with the debt crisis" and (3) "to offer proposals for assessing the problem as a developmental problem for Latin America and the US and not just a financial problem for bankers and finance ministers". The first two goals are addressed by five papers in part one of the book and the third goal by seven papers in part two. Part three, which is composed of two papers, provides a summary of the whole debate. The papers encompass a diverse set of perspectives on the debt crisis from a formidable group of symposium participants. The authors include a former president of Costa Rica, a US senator, former finance ministers of Venezuela and Mexico, a senior Reagan administration official, two senior New York bank officials, the Western Hemisphere director of the IMF and several distinguished researchers in academic fields related to the debt crisis.

Consensus: The broad statement of consensus of symposium participants may be paraphrased as follows: "The Debt Crisis inhibits development and threatens democracy in Latin America. Since the onset of the crisis in 1982, the debtor nations, the international financial institutions, the US and the commercial banks in the major creditor countries have all struggled to adjust to new conditions. Despite improvements in the external balances of Latin American countries, restructuring of outstanding debts, improvements in the balance sheets of the banks and a strengthening of the roles of the IMF and World Bank, the debt problem remains unresolved. Furthermore, plans to alleviate the problem must go beyond proposed short-term solutions like the Baker Plan, which treats the debt crisis largely as a temporary liquidity problem. A long-term solution is required—one in which the economic reforms envisaged for debtor countries ensure an integrated pattern of regional economic growth. Latin America could overcome the debt crisis and achieve its development goals if the industrial countries would foster an environment of sustained global growth, open trading markets and moderate interest rates."

Divergence: While inappropriate economic policies in debtor nations and vacillations in the international economy are both acknowledged by all symposium participants to play a role in explaining the debt crisis, the institutional affiliation or political position of the analysts is a good predictor of their focus of attention. Not surprisingly the Latin American representatives lay the blame on international events outside of their control while commercial bankers and officials from industrial countries cite the policy errors of the Latin Americans. Opinions on the distribution of the costs of adjustment to the debt both within and between North and South are similarly divided. Disagreements also prevail regarding the appropriate development strategies and the means of encouraging such strategies in Latin American countries. Much attention is given to the 1985 Baker Plan (outlined in Appendix A of the book), a US plan providing for increased debt financing from the commercial banks and the international financial institutions. Economists Fred Bergsten and Albert Fishlow criticise the financial provisions of the Baker Plan as being insufficient to meet its growth objectives. Senator Bill Bradley emphasises debt relief as an alternative to the new commercial loans espoused by the Baker Plan. In the final chapter Pastor provides a concise outline of alternative proposals to alleviate the debt crisis.

Conclusion: The final chapter of the book pinpoints the issue in planning for the future. Pastor writes: "The question for the inter-American community is whether the dialogue of the debt will remain a dialogue of the deaf or whether both sides will begin listening to each other and take steps that could transform the financial crisis into a global development opportunity". The sequence of events since the symposium suggest that the "dialogue of the deaf" still prevails. There is a general feeling among debtors and creditors that the Baker Plan has ground to a halt since the banks remain reluctant to comply with the provisions for new loans envisaged by the plan. Brazil's recent agreement to end the suspension of interest payments begun in February 1987 is likely to have little effect on banker cautiousness with respect to Latin America.

Comments: The papers in the book fulfill the role of briefing a reader wishing to become acquainted with developments in the Latin American debt crisis since 1982 and the perspectives of various parties involved therein. In this context the first stated goal of the book has been achieved. For those readers who have followed closely the media reports on Latin American debt, the main contribution of the book is to bring diverse viewpoints together in one volume. For this latter purpose the article by Feinberg in chapter fourteen provides a good synopsis of the whole symposium debate.

Although some authors make use of descriptive statistics in presenting their viewpoints the credibility of many arguments is undermined by the absence of in-depth statistical analysis. This certainly holds true in the discussion on the distribution of the costs of the debt crisis. Consequently the book fails to achieve its second goal because the hard evidence is missing.

Although all authors put forward proposals for future policy, not all of these proposals assessed the problem in the context of a developmental problem as required by the third goal of the book. The Bradley proposal is the only one which has achieved any subsequent support from parties involved in the debt crisis.

Given the locational context of the symposium and the political affiliations of the participants, the papers contain an inevitable emphasis on the ramifications of the Latin American debt crisis for the US, to the neglect of the roles and responses of other industrial countries. The absence of a contribution from a representative of the World Bank is also evident especially since that institution has begun to play an increasingly important role in the debt crisis.

The range of backgrounds of the participants involved in the symposium—academics, bankers, policy makers, politicians—must surely have made the task of editing the papers into an integrated whole an unenviable one. Just as the symposium was designed to be informative to an audience seeking a summary explanation of the debt crisis from diverse perspectives the book is also likely to find most appeal among a similar audience.

A Comprehensive Agenda for LDC Debt and World Trade Growth: including a proposal for an Institute of International Debt and Development, James D. Robinson III, The Amex Bank Review Special Papers, Number 13, March 1988, 43 pages

"Without economic prosperity there can be no lasting world peace", (attributed to George Marshall). So ends the presentation to the Overseas Development Council in Washington DC, on 29 February 1988, of a proposal to help solve the third world debt crisis. The proposal was put forward by James D. Robinson III, Chairman and Chief Executive Officer of the American Express Company. At the centre of the proposal, as the sub-title indicates, is the creation of "The Institute of International Debt and Development", abbreviated I2D2, an entity intended (1) to expand the roles of the IMF and World Bank in negotiating programmes for economic growth and reform in developing countries and (2) to provide a reorganisation facility for third world debt by exchanging, at a discount, the outstanding sovereign bank debt of a country for new long-term, high-quality debt.

Discounting would reduce debt servicing needs. New loans would have a prior claim on resources—the subordination principle. Participation of debtor countries and sponsoring countries in the I2D2 scheme would be on an entirely voluntary basis. And the cost? This would depend on a number of considerations, including the number of participants and the financial backing provided by the sponsoring country governments.

Robinson argues that the proposal would have the advantages of: opening doors for new money sources; encouraging developing countries to pursue growth-promoting policies; having the public sector involved in the solution; providing the IMF and World Bank with an international reorganisation facility, strengthening the world bank system and ensuring that the banks bear an equitable share of the cost of third world debt.

Concluding Comments: The paper provides a very readable outline of a proposal for a longer-term solution to the debt crisis. The need for such a solution is well motivated and the salient features of the proposed I2D2 are concisely summarised in the main body of the paper. For those readers interested in the details of I2D2, the appendix describes in considerable depth its organisation and activity, its relation with the participants and the organisation of its financing. The paper does achieve the objective of presenting a comprehensive proposal for a solution to the debt crisis. In this sense it moves closer towards "Planning for the Future", the third objective of the book edited by Pastor which is reviewed above. This is not to deny that the proposal itself does not have any flaws nor that its implementation would not pose many difficulties. In particular the voluntary nature of participation and the details of its funding are areas which certainly require further analysis and discussion. Whatever problems the proposal itself may contain the paper deserves to be read as a concise presentation of the issues involved in developing a longer-term solution to the debt crisis.

Mary McCarthy

Three Books on Southern Africa

Sanctions and South Africa: Dynamics of Economic Isolation, Merle Lipton, The Economist Intelligence Unit, Special Report No. 1119, London, January 1988

The European Community and South Africa: European Political Cooperation under Strain, Martin Holland, London: Pinter 1988

SADCC: Prospects for Disengagement and Development in Southern Africa, Samir Amin, Derrick Chitala and Ibbo Mandaza (editors), London: Zed Books, 1987

These are three very different books on that much written about part of the world, Southern Africa. The Lipton study focuses on the utility of sanctions. Holland examines the process of European Political Cooperation (EPC) using South Africa-EC relations as a case study. Sanctions are treated in this volume as well but as part of EC policy. The third book is a study on the political economy of the Frontline States and the organisation, SADCC, which was established to foster economic independence from South Africa, the dominant economy in the region.

Sanctions are a highly controversial issue in the debate on policy towards South Africa. The Lipton study received extensive media coverage when published in January 1988 and was heralded as a major boost for the Thatcher Government's anti-sanctions policy. The study attempts to question the impact of sanctions on South Africa. Having examined the position of South Africa in the world economy and its importance to the Western economies, Lipton assesses the reaction of business to sanctions. This is the most useful part of the study; she shows that a feature of disinvestment has been its cumulative, snowballing tendency and concludes that South African businessmen, economists and officials are most worried about sanctions on capital inflows because external capital is essential for growth in the economy. In relation to trade sanctions, Lipton suggests that about 60% of South African exports are unsanctionable. She refers largely to minerals and gold in this respect. This still leaves 40% of exports vulnerable to sanctions and ignores the impact of sanctions on imports. I have most difficulty with the conclusions of the study concerning the relationship between existing sanctions and political developments within South Africa. Lipton argues that international pressure has increased polarisation within South Africa by reducing the "limited and precarious, but valuable political space" that was emerging. There never was much political space in South Africa—the Botha government has never shown itself willing to foster fundamental political change. A white South African Government is unlikely to concede political power peacefully. It is wishful thinking on Lipton's part to think that there is an evolutionary road to political change in South Africa.

The Holland book provides an excellent overview of the nature, scope and development of EPC from 1970 to the signing of the Single European Act. The domestic dimension of EPC and the difficulties posed by national diversity for foreign policy cooperation are highlighted. Concerning the substance of EC/South Africa relations, Holland concludes that the Code of Conduct has been an "unmitigated failure" and makes the point that while the EC chose to reform the Code, the equivalent US initiative (the Sullivan Principles) was rejected by its originator. Holland profiles EC policy as "nonsense policy" in the period 1977 to 1984 and "symbolic policy" between 1985 and 1986 when the Community adopted a series of restrictive and positive measures towards South Africa. The combined intransigence of the British, West German and Portuguese governments on the issue of sanctions underlines the "symbolic" nature of EC policy, according to the author. The EC sanctions package is much weaker than its American counterpart. This conclusion highlights the dilemma facing Irish policy makers. Ireland is very committed to collective EPC measures towards South Africa. There is a real danger that stagnation in EPC may prove to be an alibi for inaction. Those countries in the Community which favour a stronger anti-aparthied policy need to examine other strategies such as partial or unilateral measures.

Both the Lipton and Holland studies proffer thoughts on future policy options on South Africa. Lipton envisages five scenarios. First, a continuing lull whereby existing sanctions remain in place. Second, a continuation of the gradual escalation of incremental sanctions. Third, a change in sanctions strategy involving a more complex and differentiated approach. Fourth, a major intensification of sanctions and fifth the erosion or lifting of current sanctions. The author suggests that the most likely prognosis for the future is the escalation of sanctions evolving at some stage into a major intensification. There are clear indications that the US will step-up sanctions against South Africa, especially if the Democrats win the presidential election. This will renew pressure on the EC and the UK may find itself in the uncomfortable position of imposing a veto on a US sanctions package at the UN Security Council.

Holland distinguishes between moderate policies, substantive policies and optimal polieies. Moderate policies involve developing relations with opposition forces in South Africa, strengthening the oil embargo and increasing cooperation with the frontline states. Positive measures towards the SADCC states is an area where consensus can be attained among the EC states.

The third book on SADCC provides ample evidence of sectors which would benefit from EC cooperation and aid. Holland suggests that substantive policies should include an end to export credits and credit guarantee schemes, the adoption of an embargo on coal and the termination of landing rights for South African Airways. Optimal policies are defined as the imposition of sanctions which will have a detrimental effect on the South African economy. Two key economic measures are cited: a ban on imports of newly minted gold and the withdrawal of international loan facilities. The electoral victories of both Kohl and Thatcher means that these options are unlikely to appear on the EPC agenda in the immediate future.

All three books are of interest to those concerned with the future of South Africa. The volume on SADCC is a serious study in political economy and is of most value to development economists. The Lipton volume is required reading for those involved in the sanctions debate; it is essentially critical of sanctions as an instrument of policy. There are a number of errors in the study which is unexpected in a volume as expensive as this one. Appendix 5 refers to the EC measures adopted in 1986 when in fact the text relates to the 1985 measures and the table on sanctions incorrectly suggests that fruit and vegetables may still be imported into Ireland under licence. The Holland study provides an excellent assessment of the evolution of EC policy towards South Africa. However, the author underestimates the extent to which no one government controls the process of EPC and the impact of pressure from the international system on EPC.

Brigid Laffan