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Bradley plan for Third World debt relief ignores reality, offers pittance

by Peter Rush and Dennis Small

At a June 29, 1986 bankers conference in Zurich, Switzerland, Sen. Bill Bradley (D) of New Jersey surprised colleagues and the Reagan administration by unveiling what he called a new approach to dealing with the enormous foreign debt of Third World countries, especially in Ibero-America. He reiterated the proposal at the U.S. Congressional Summit on Debt and Trade, held at the Waldorf Astoria hotel in New York on Dec. 4, where he amplified his concept of "debt relief," which he proposed replace Treasury Secretary James Baker's policy of "pour[ing] in new money that adds to the debt."

Bradley, in a third speech to the National Press Club on July 24, 1986, added, as a further argument for his plan, the fact that, as a result of the debt crisis, Ibero-American imports from the United States have plummeted since 1982, costing the United States 400,000 lost jobs from falling exports, and another 400,000 in potential jobs that America didn't get because the Ibero-American economies stopped growing.

At face value, Bradley's proposal represents an effort to go beyond existing disastrous IMF and Reagan administration plans to deal with the Third World debt crisis. But it falls far short of what is minimally required to restore growth to these nations and to provide them a long-term means to eventually repay their debts. Bradley has posed the right question, but he has not supplied the correct answer.

Bradley summarized his three-year proposal for Third World debt as follows:

1) Forgive 3% of the principal owed to banks and governments in each of three years;

2) Grant up to 3 points of interest rate relief for each of three years, on outstanding debts to banks and governments; and

3) Use these concessions to get debtor nations to implement "structural adjustments" of their economies.

Bradley emphasized that this debt relief should be offerred to debtor countries on condition that they implement "growth-oriented economic reforms," including: a) liberalizing trade restrictions to enhance imports; b) reverse capital flight; c) allowing free-floating exchange rates; d) enforcing fiscal discipline in government spending; e) encouragment of internal investment. The senator's office explains that such reforms would be reviewed on a yearly basis by the major private and government creditors, to determine how "credible" they are. Interest rate relief would be granted differentially, of anything from 0 to 3 points, based on these reviews.

Although Senator Bradley's office has made few quantitative details of his proposal available, they assert that the measures should be applied for a three-year period, and would add up to $42 billion in debt relief over that time period, for the 10 largest debtors in Ibero-America. The Bradley plan has no provisions one way or the other on the subject of new credits, but assumes a normal flow will return once the Third World economies are stabilized.

Money woefully inadequate

Bradley's proposal purports to have two principal objectives. The first is to lessen the debt burden and to restore growth to the Ibero-American economies, so they can reverse their present slide into social and economic catastrophe. The second is to create, in this way, a reinvigorated export market for American goods. Will it achieve this?

Taking the second goal first, Bradley's proposal would unfortunately do little to restore Ibero-American imports from the United States or elsewhere. If the entire $10 billion yearly "saving" in lower interest rates (3% on $320 billion in Ibero-American debt to banks and governments) were used to increased imports, it would only restore one-quarter of the nominal value of imports lost since 1981. In 1981, Ibero-America imported $103 billion in goods, while in 1985 the figure had dropped to $63 billion, a 39% decline. If the nearly 20% inflation in the dollar since 1981 is taken into account, the present real (constant dollar) value of Ibero-America's imports would be only $53 billion—about half the 1981 real value. If $10 billion per year were restored to Ibero-America, this would be useful; but even if it were entirely applied to importing goods from the United States (ignoring Europe,

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Japan, and other suppliers), it would not begin to revive U.S. export markets to their pre-1982 levels. In fact, after the three years of the Bradley plan were over, Ibero-America would still be importing less than it was a decade earlier. In point of fact, it would require three times as much net debt relief as the Bradley plan proposes to simply restore Ibero-America's earlier, inadequate importing capacity; it would take about 10 times as much relief for the continent to be able to import what it actually requires in order to industrialize.

In his Zurich speech, Senator Bradley correctly stated that "We must stop the perverse flow of resources from the poorest countries to the richest." But Bradley's Plan won't do that. In 1985, Ibero-American exports exceeded imports by $34 billion ($38 billion in 1984, $32 billion in 1983), representing a net outflow of tangible wealth of this magnitude. Bradley's entire package would reduce this by less than a third, leaving almost $25 billion of annual net outflow of resources "from the poorest countries to the richest." And this estimation doesn't even take into account the massive capital flight that has plagued Ibero-America over the last decade: Over $100 billion has been looted in this fashion over the past eight years.

But the picture is worse still. Although Bradley mentions in passing the fall in prices for Third World exports, he fails to note that Ibero-America has suffered just as cruelly from falling terms of trade as it has from excessive interest rates. Since 1981, the average price of Ibero-American exports has fallen 17% in relation to the prices of its imports. This means that in real terms (based on 1981 prices), Ibero-America exported $19 billion more in 1985 than the dollar value indicates, or $110 billion, against exports of $57.5 billion, for a whopping $52.5 billion yearly net outflow of real wealth. Against this, Bradley's assistance is a pittance.

Reviving the region's economies

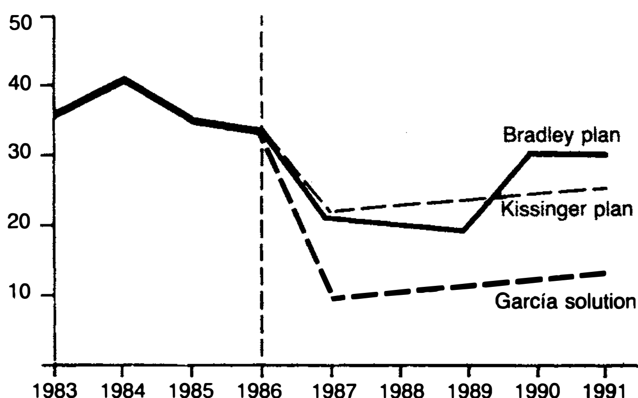
Bradley's proposal is just as wanting with respect to reviving the economies of Ibero-America. First, he cites the Marshall Plan for postwar Western Europe as an example, a plan which permitted Europe to run substantial net trade deficits for many years. But Bradley's plan, as noted above, still leaves Ibero-America exporting much more than it imports, a prescription for failure of any economic recovery plan. No economy in the world ever developed without a sustained period of net imports of capital and other goods needed for development.

Second, Bradley's proposal ignores the damage done to the structure of the Ibero-American economies since 1981. Since that time, there has been a net cumulative outflow of $109 billion in tangible wealth (not counting capital flight and other monetary drains) in the form of trade surpluses since 1982, and a further $95 billion in real loss due to falling relative export prices, or more than $200 billion in directly looted real, physical resources. Against this drain, Bradley's proposals are a drop in the bucket.

FIGURE 1

Ibero-America's annual debt service payments: three options 1983-91

(billions of dollars)



Bradley does cite the severe economic crises the leading Ibero-American economies are in, but he vastly understates the magnitude of the problem. He says Mexico has suffered only 8% decline in living standards over the last few years, whereas the true figure is closer to one-third. Again, the deficit in unmet social needs of the populations of the continent requires hundreds of billions of dollars just to restore living standards to levels of 1980, a need overlooked by Bradley's plan.

The García solution

In his Dec. 4, 1986 New York speech, Bradley made conspicuous reference to the ostensibly commendable "reforms" of Ecuador and Costa Rica, while studiously omitting any reference to the most important success story on the continent, Peru. This despite the fact that Peru has accomplished exactly what Bradley said countries ought to do to warrant debt relief: Peru has ignited 8% annual GNP growth, with over 20% growth in manufacturing, while halving inflation, and provided 50% increases in real income for the poorest segments of the population.

The way the García government of Peru has done this is by restricting foreign debt service payments to a maximum of 10% of annual export earnings, and productively investing this wealth in the domestic economy. If a similar approach were taken by all the countries of Ibero-America, truly significant debt relief could be achieved: $27.2 billion per year, or about three times the relief provided by the Bradley plan.

A close examination of the Bradley plan thus demonstrates that the level of debt service payments it implies hardly differs from that of other more "orthodox" debt policy proposals, such as that of Henry Kissinger, as **Figure 1** indicates. Only the García solution provides a real answer to the debt-strapped nations of Ibero-America.