

Danish economy, caught in debt trap, a harbinger for the U.S. collapse

by Poul Rasmussen

If you want to know where the U.S. economy is going, take a close look at the economy of Denmark. This line might sound like a ludicrous suggestion given the enormous differences in size and internal composition of the two economies. But disregarding the obvious differences, there is one very good reason for making this comparison.

The United States is now a net debtor nation, and Denmark has been one for 25 years. The rapidly growing foreign debt of the United States will soon trap the entire U.S. economy in exactly the same way as the Danish economy has been trapped for a number of years.

Although Danish government officials and economists never say so in public, the ugly truth is, that Denmark is no longer capable of paying back its foreign debt. The debt trap has closed, and the annual interest payments on the Danish foreign debt today exceed what can be extracted from the real economy of the country.

One look at the Danish balance of payments compared with the balance of trade reveals the problem (Table 1). Since 1982 the annual debt service (interest payments) has been in excess of \$3.5 billion. In a country with only 5 million inhabitants and a Gross National Product (GNP) of approximately \$100 billion (1987) this is simply more than you can possibly extract from foreign trade. The result is an ever-growing foreign debt (Figure 1).

The scary part is the fact that not even those years with a

significant surplus in the balance of trade will have the slightest impact on this process. Today, the Danes would have to generate an export-over-import surplus of \$5 billion a year

FIGURE 1
Danish foreign debt more than quadrupled, 1971-87
 billion \$

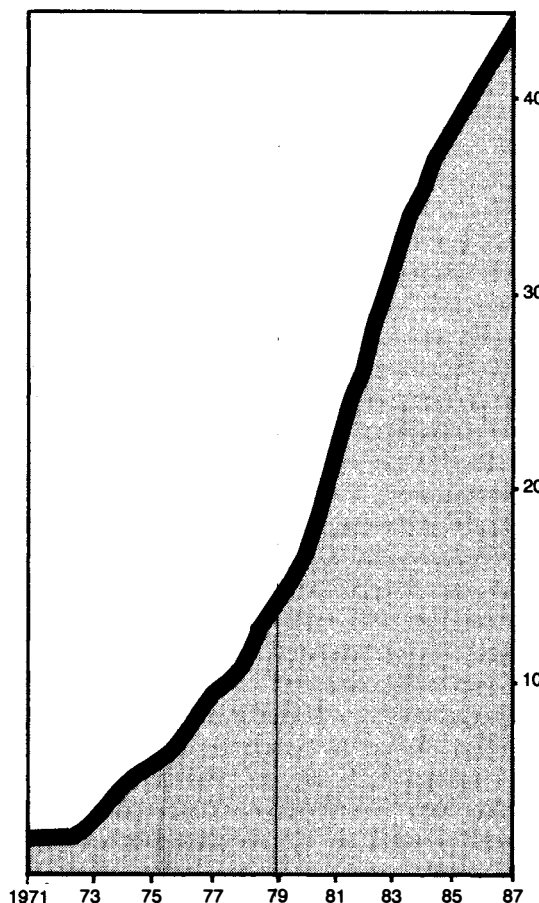


TABLE 1
Denmark's balance of trade, balance of payments plummeted since 1980

(in billions U.S.\$)

	1980	1981	1982	1983	1984	1985	1986	1987
Balance of trade	-0.59	+0.17	-0.12	+0.95	+0.99	-0.31	-1.03	na
Balance of paymtns	-2.06	-1.89	-2.96	-1.97	-2.74	-4.47	-5.30	-3.50

just in order to cover the net interest payments. This is almost five times the all-time record surplus on the Danish balance of trade in 1984.

So, even if the Danes outdo themselves in export earnings and at the same time cut imports severely, the foreign debt would still continue to grow. Economists from the Danish Industrial Council have calculated that it would take Denmark 45 years to repay its foreign debt, if the entire population were to cut its living standards by 14% or simply stop consuming anything for 49 days a year.

Today, the total private and public foreign debt of Denmark amounts to \$45 billion. With a population of only 5 million people, that makes the highest per capita indebtedness in the world.

Permanent payments deficit

For the moment, the eyes of the international financial markets are nervously following the ups and downs of the U.S. balance of trade deficit, but economists from the Danish Bank of Jutland (Jyske Bank) have warned that this is the wrong place to look for real indicators of the U.S. economic development.

The U.S. has only been a net debtor nation since 1985, but its foreign indebtedness is growing at a staggering speed. Therefore, Bank of Jutland warns that it will not take long before the U.S. finds itself in the same "debt trap" that closed itself upon Denmark some years ago.

In the last quarter of 1987 the total interest payments on the U.S. foreign debt exceeded the total interest income. With the still-growing U.S. indebtedness, these interest payments will grow exponentially, and the United States will soon find itself looking at a balance of payments deficit as

permanent as the one presently haunting the kingdom of Denmark.

Bank of Jutland predicts that the U.S. balance of payments deficit will reach notable amounts as soon as the end of the first or second quarter of 1988. From then on, minor changes in the U.S. balance of trade deficit will no longer impress the financial markets. A rapidly growing balance of payments deficit simply demands a solid and significant trade surplus, if the foreign indebtedness can be prevented from going through the ceiling.

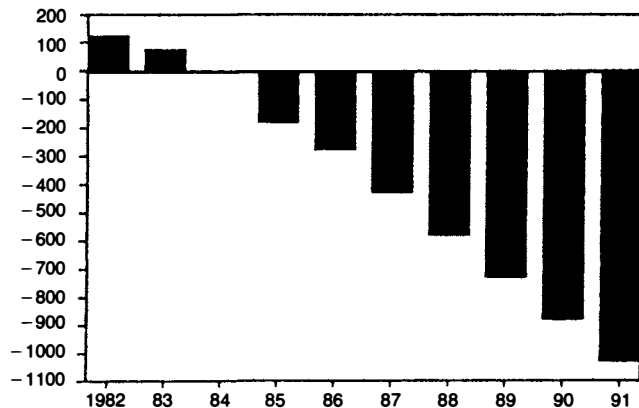
Very conservative estimates by the Bank of Jutland show that the situation might already be out of control. Assuming a continuous improvement in the U.S. balance of trade deficit in the next four years, combined with a continuously falling dollar which will counterbalance the growing servicing of the U.S. foreign debt, thereby fixing the balance of payments deficit at its current level of \$150 billion, and an annual real growth of 1.8% with inflation of 3.5%, the growth of the U.S. foreign debts will still look as it does in **Figures 2 and 3**.

The rapid growth of the U.S. foreign debt will soon create a balance of payments deficit vastly exceeding what the country possibly can hope to extract from its foreign trade. The "debt trap" will have closed upon the United States of America.

What went wrong in Denmark?

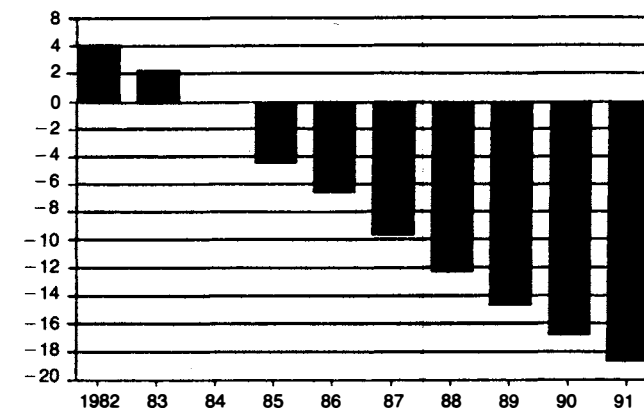
Denmark has lived with its balance of payments deficit for 25 years, but now the debt problem has taken proportions that severely threaten the economic foundations of the country. With a GNP-to-debt ratio of 40%, you have a country in trouble (**Table 2**).

FIGURE 2
The U.S. foreign debt, 1982-91
(billions of U.S.\$)



Source: Bank of Jutland.

FIGURE 3
U.S. foreign debt, 1982-91
(% of GNP)



Source: Bank of Jutland.

TABLE 2

Denmark surpasses developing countries in debt-to-GNP ratio

% of GNP	1980	1981	1982	1983	1984	1985	1986	1987
Denmark	26	30	35	38	40	39	39	39
Devel. countries	21	22	26	31	33	36	35	na

EIR has recently completed a comprehensive study of the major elements of the Danish economic crisis. Because of the significant differences between the U.S. and Danish economies, the results of this study do not relate directly to the present U.S. situation. Nonetheless, it should be of interest to see how a fellow OECD nation ended up with a debt problem, surpassing that of any "Third World" country (Table 3).

The *EIR* study clearly reveals that the key changes in last 25 years of Danish economic development are due to drastic changes in the world economy and the international financial markets, and not internal economic factors.

As a matter of fact, being an export-dependent country, Denmark has been conducting itself fairly well in the last 10-15 years. Since 1974 the volume of imports has only risen 31%, while exports have grown 79%. Why then the balance of payments deficit?

Like many other nations, Denmark has suffered from a series of economic disasters sweeping across her borders from the outside world.

The first major disaster was the oil crisis of 1974. Being a modern industrialized country, Denmark was totally dependent upon its oil supplies. The sudden 400% inflation in oil prices sent the Danish trade deficit through the ceiling. From 1973 to 1974 the Danish balance of trade deficit soared 207%. With no financial reserves, the only way Denmark could finance this deficit was through foreign loans.

Over the next two years, from 1974 to 1976, the Danish foreign debt increased 117% and the balance of trade deficit

reached \$2.5 billion, of which 120% came from increased oil prices. In other words, had it not been for the oil crisis, Denmark would have had a significant surplus on its balance of trade in 1976.

From 1976 to 1978 the Danish foreign debt increased another 61%, reaching a total of \$10 billion. By now the increased burden of interest payments began to show. The interest payments as a percentage of the Danish export earnings had gone from 2.7% in 1973 to 7.6% in 1978.

The major changes in the world economy in 1979 hit Denmark very hard. First, the second oil crisis, where the oil prices hit \$35 per barrel, and then the "fight inflation" policies orchestrated by the newly appointed chief of the U.S. Federal Reserve, Paul A. Volcker.

By tightening the U.S. money supply and letting U.S. interest rates reach usurious levels, Paul A. Volcker certainly did stop the collapse of the dollar, but he also destroyed the national budgets of every American ally across the world.

In just one year, the Danish foreign debt rose by 31%, or \$3.1 billion. Of this \$3.1 billion, 30% represented increased interest rates. The debt bomb had been ignited.

By 1982, when the Mexican debt bomb exploded, the Danish economy had been sent into a tailspin. From 1979 to 1982 the Danish foreign debt increased by 144%, ending up at \$25 billion. At this time the "debt trap" began to close. Interest payments as a percentage of Danish export earnings had reached 14.4%.

In the following three years, the debt strangulation of the Danish economy was finalized. Although the Danish balance of trade showed an average surplus of \$500 million, the Danish foreign debt increased another 63.6% in those three years. By the end of 1986 the total foreign debt of Denmark had reached \$40 billion and the annual interest payments amounted to 16.2% of total export earnings.

Summing up the effects from the 1974 and 1979 oil crises, the Paul Volcker high interest policies of 1979-82, and the failure of President Reagan to solve the debt crisis in 1982, the Danish economy was totally destroyed. Despite a 27% increase in the productivity of the Danish economy, and despite a 79% increase in export volume (against a 31% increase in import volume), and despite an increase in the export-to-GNP ratio from 24% in 1973 to 34% in 1985, the Danish foreign indebtedness increased from 1973 to 1987 by 1,301%!

If one isolates the two major external factors of the Danish foreign debt explosion, the increased oil prices and the usurious interest rates, one comes to an astonishing result. Setting the 1971-73 interest rate/export ratio as the basis for a "fair interest" on the foreign debt, and adjusting the 1973 oil prices for inflation, the *EIR* analysis shows that the excess in usurious interest rates since 1974 accounts for 52% of the Danish foreign debt, and the remaining 48% can be accounted for by the increased oil prices. In other words, nothing of

TABLE 3

Denmark pays more interest than developing countries

% of exports	1980	1981	1982	1983	1984	1985	1986
Denmark	10.0	11.8	14.4	12.9	14.6	15.0	16.2
Developing countries	6.9	8.3	10.4	10.1	10.3	10.8	10.7

the 1974-87 increase in the foreign debt of Denmark was legitimate (Figure 4). As a matter of fact, barring a number of forced devaluations since 1974, Denmark would be a net creditor country today.

Destruction of Danish agriculture

But even if the legitimacy of the Danish foreign debt can be questioned, it is a real problem for the physical economy. To stem capital flight, Danish interest rates have been kept one or two percentage points above the international level. Together with a world-record tax burden of some 60%, the high interest rates have slowly brought the Danish productive sector to its knees.

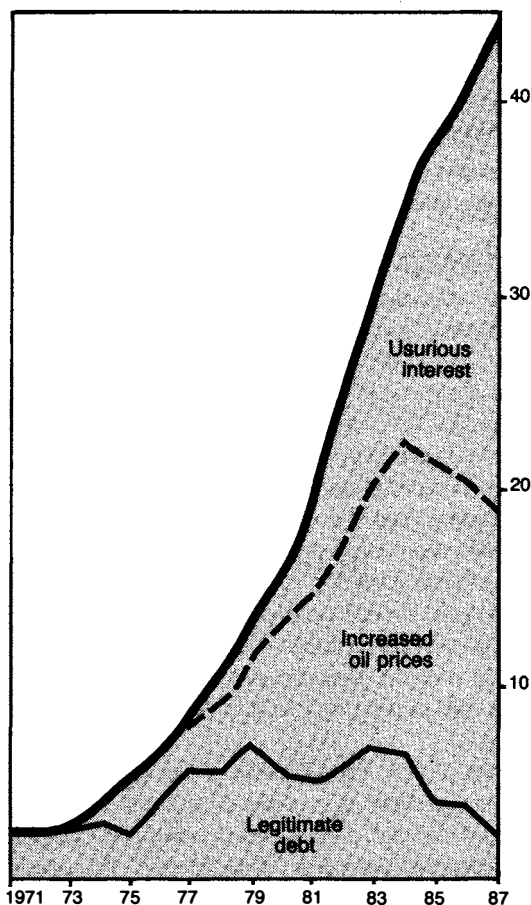
Today, Danish agriculture is the most indebted agricultural sector in Europe. The average Danish farmer spends 52% of his net income on interest payments, and in many cases his farm's total indebtedness exceeds the total value of

buildings, land, and machines.

According to the Danish Agricultural Association, 5-10,000 farmers will have to leave their farms within the next two years, unless a debt relief program is enacted. Moreover, thousands of farmers face dire financial problems because of the European Community's plans to cut European farm production by 20%. With a permanent balance of payments deficit, Denmark needs every penny of the \$7.5 billion in net export income that farmers and fishermen bring home every year. Yet the government has no active plan to save these two sectors.

Of the 25 most competitive Danish export products, 22 are related to agriculture and fishing; more than 20% of the Danish labor force is employed in agriculture, fishing, and related industries. While all Danish exports only represent 0.86% of the total volume of exports in the industrialized sector, Danish food products enjoy a much higher share of the market. Danish bacon and ham make up 42.6% of the world exports of those products. Almost 40% of world exports of dried, smoked, or salted meats comes from Denmark. Thirteen percent of all the frozen fish filets exported in the world comes from Denmark. The only industrial product to have a similar share of world exports is Danish furniture.

FIGURE 7
Composition of Danish foreign debt
billion \$



Denmark under IMF dictatorship?

In February, the International Monetary Fund made its annual review of the Danish economy. As usual, the text of the IMF report was kept secret, but the IMF visit coincided with unprecedented attacks on Danish economic policies. Interviewed by the conservative paper *Jyllandsposten*, the director of the Nordic Division of the World Bank, Ulrick Haxthausen, warned that Denmark has five years to correct its balance of payments deficit. If it fails, Denmark would have to face IMF conditionalities. The medicine prescribed by director Haxthausen has been known to Third World countries for years: massive austerity. "In many years to come, there will be no money for new cars, new furniture, red wine, or steaks," he stated. "From my work at the World Bank, I know a number of countries at a much lower level than Denmark, which have cut their living standard by 15-20% without any significant social unrest as a result."

The comments from the World Bank sparked a renewed debate on the Danish economy. Rumors surfaced of a grand coalition government, with the participation of both the Conservative and Social Democratic parties. The idea being, of course, that Denmark voluntarily implement the IMF conditionalities by itself, "to preserve national sovereignty."

One comment on director Haxthausen's warning of IMF dictatorship came from Peter Wendt, economist at the Hania Investment Bank. He said: "It is like when a person dies. It happens suddenly, and I will say that in terms of economy, we are already dead. The only question remaining is when the foreign [banks] will bury us."