
Editorial

Third World Debts

The foreign debt problem of the Latin American and Third World nations is increasingly front page news. Yet the international banks continue as if there is no problem. Finance and credit for the debtor countries is readily available although it is obvious that such credit is unlikely ever to be fully repaid. There is also the moral issue of the effects, particularly for the poorer countries, of the catastrophe that many believe this enormous third world national debt will inevitably bring about.

The problem, in essence, is the inevitable inability of almost every debtor nation ever to repay its foreign debt. In fact, the current problem is being able to pay the interest on that debt. The poor nations get poorer as they utilise their small foreign currency reserves to service their debt to the rich countries, rather than use those precious reserves to develop their economies. The more powerful and economically viable debtor countries have been able to negotiate the rescheduling of the repayment of their debts, but are equally unable to repay the whole.

An urgent juridical solution is required. A major default by any one debtor nation, if successful, would almost certainly open the flood gates of

an international default and the major debtor countries just cancelling their liabilities. This would lead to a world-wide economic and industrial collapse of such proportions as could destroy the free world.

Notwithstanding the foregoing the international banks continue to provide finance and extended credit to the major debtor nations with little extra restrictions. Western governments have shown themselves not to appreciate the magnitude of the problem and impotent to take the essential action to deal with it, perhaps due to fear that any action would detrimentally affect their fragile national economies in the post-recession period.

The world is headed for an economic armageddon with the resultant collapse of the legal and commercial structure in the West as it is presently known. This can be avoided only by drastic action taken by national governments in concert with new thinking by the International Monetary Fund and World Bank. One practical solution is for the Governments of the rich countries and the international banks to wipe out a percentage of the world's foreign debt. Another solution would be an international agreement for a subsidised, fixed rate of interest on loans to debtor countries. Whilst these solutions will not provide an easy remedy and there would undoubtedly be a period of international recession, instability and austerity, the solution is preferable to the collapse of international economic and commercial order.