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*Rising levels of poverty and unequal wealth distribution are associated with neoliberalism. Debt and structural adjustment programs are being used as instruments to provide leverage over developing countries. Debt repayments exceed foreign aid, so the global South is financing the North, contrary to conventional wisdom. The debt was borrowed by unelected governments in the past, but poor citizens today must repay it. It is unclear why poor nations continue to repay debt that could be partially voided under the doctrine of "odious debts." In any case, debt has given leverage to the World Bank and IMF, which have required the sale of public assets. Privatization has weakened the ability of governments to provide services to their own people. Debt hurts not only the citizens of poor nations, but everyone in the world as a result of "debt boomerangs" in the form of environmental damage, lost markets, immigration, and the drug trade. The overall solution to these problems is participatory democracy, as exemplified by the municipal budget process in Porto Alegre, Brazil. Change is possible when people are allowed to be part of the democratic process, as recent elections in Brazil, Venezuela, and Bolivia indicate. But anti-democratic institutions, such as the World Trade Organization, continue to govern without the consent of the governed. The struggle continues.**



Neoliberalism as the Source of Growing Poverty

When the market makes the major decisions, it gives to those who already have. It creates inequalities.† If you have a lot of money, you can take

* Ed.: In a portion of the interview removed for length, Ms. George notes that poverty is growing in rural areas around the world, particularly in Africa. Even though the middle class in China and India are growing richer, the wealth gap is widening on a global basis, including within the US.

† Ed.: At various points in the interview, Ms. George referred to statistics she did not have available. According to World Bank, *Global Development Finance 2004: Harnessing Cyclical Gains for Development*, the total debt service paid by all developing countries in 2003 was \$373 billion. Official development assistance was approximately \$70 billion in 2003 and \$80 billion in 2004, according to the Global Policy Forum, using OECD data. (www.globalpolicy.org/socecon/develop/oda/tables/odahistory.htm). The IMF says that remittances to developing countries through official channels were \$167 billion in 2005 but that flows through informal channels are believed to be at least 50 percent higher than recorded flows (i.e., over \$200 billion). (See *Finance and Development* (IMF journal), December 2005, Volume 42, Number 4, at www.imf.org/external/pubs/ft/fandd/2005/12/picture.htm.) These data confirm the accuracy of Susan George's memory.

advantage of market opportunities. But people who have no material basis are pushed further outside and further down the scale of wealth.

The idea of the market as master began after 1980, with Thatcher in Britain and Reagan in the US. Neoliberalism was then imposed or accepted throughout the world. It means, "Let the market make the decisions, without government intervention." Right-wing US foundations spent billions of dollars making people think this is normal.

This well-funded ideological offensive created inequality and drove the middle class into poverty. It was worse in poorer economies that had no social safety net. The correct recipe for society is to allow politics and society to dictate the rules to the economy, not vice versa.

Resistance to Neoliberalism

Powerful reactions against neoliberal policies have occurred, with dozens of "IMF riots" in the global South. When the International Monetary Fund (IMF) says, "No subsidized food," grain and cooking oil triple in price. Interest rates rise sky high. These changes knocked people over. That is why governments changed in Latin America. The people said, "Hello, we count too. We are the majority."

The global consequences of neoliberalism affect Americans every day but they do not pay attention. Not many in the US understand international issues, such as African debt reduction, or the unfair prices we pay Africans for raw material.

Americans are very confused about foreign aid. They think it represents 10-15% of GNP, when it is actually $\frac{1}{10}$ th of 1%. They also think aid is a very good thing. It would be, except that 1) aid recipients have to buy goods from American companies, which does not help their economies, and 2) aid is surpassed by the outflows coming from the South.

Structural Adjustment and Debt as Causes of Poverty

The blind operation of the market is not the only factor causing poverty. "Structural adjustment packages," imposed on poor indebted countries by the IMF and World Bank to extract debt repayments in hard currency, impoverish countries by privatizing everything and promoting exports. This removes resources that could be spread among the population, and sends them to Northern banks and governments. The needs of local people are neglected. Tying up capital in the export market also raises domestic interest rates, making it virtually impossible for poor people to borrow.

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We have made a little progress on reducing debt, but the vast majority of indebted countries still pay huge amounts.* Sub-Saharan Africa, which is the poorest part of the world, is paying \$25,000 every minute to Northern creditors. You could build a lot of schools and hospitals and create a lot of jobs if you were using \$25,000 a minute differently from debt repayment.

People do not understand that the South is financing the North. Looking at flows of money from North to South, and then from South to North, the South is financing the North to the tune of about \$200 billion every year. Some people say more, but \$200 billion is the rock bottom estimate. There is a constant drain, a constant killing of opportunity for ordinary people in these countries. Little girls do not go to school any more because school budgets are reduced and school fees are charged. There is a vicious cycle that prevents people from working their own way out of poverty.

The Origins of Debt in the South

How did Southern countries accumulate \$2.5 trillion worth of debt? It began with private banks from the North unloading money on governments or banks. A lot of it was government borrowing for public works and other government tasks. The issue is not debt *per se*, but whether the loan is used in a productive way by investing it. An investment allows more wealth creation, so that paying interest on the debt is not a hurdle. If you do not invest productively, your income will be reduced.

Everyone in the South with a debt owes the World Bank and the IMF. They are first in line for payments. Lower down, loans from individual governments are usually paid back. Then banks, which control private debt, may or may not get paid back. Many have discounted their debt. If they get \$40 on \$100 they loaned, they think that is great.

The debt will always hang over the heads of debtors, because it is a huge source of political control that will not be given up without a fight. The North could cancel all debts from the South tomorrow, but it would lose leverage to control votes in the UN or the South's ability to make waves about what corporations are doing in their countries.

Net Flows of Wealth from the Poor to the Rich

The flows from North to South are mostly in the form of aid, which now comes to between \$70 and 80 billion (excluding US reconstruction in

* Only eighteen of the very poorest countries have received any debt relief. Others continue to pay, and will never get out of the debt trap.

Iraq). Foreign workers from the South, working in the North as migrant laborers, send home at least \$200 billion a year. That involves the export of people who are young enough and vigorous enough to get jobs in the North. That is the money going from the North. From the South to the North, there are huge debt repayments of more than \$370 billion.

Underpayment for commodities also contributes to global poverty. Developing countries have been told they must increase their exports to repay debt. But the same advice is going to everyone. The result? Overproduction of cotton, cocoa, coffee, and tea. When everybody puts more of the same goods on the market, the prices go down for everyone.

For instance, after the Vietnam War, the World Bank loaned a lot of money to Vietnam for coffee production. There was already a structural surplus of coffee in the world. So the price sank even further, hurting many coffee farmers in Brazil and Africa.

Debt: Repaying What Others Borrowed

The debt came about because of binge borrowing in the 1970s, mostly for consumption by the upper middle classes. The top people in the country sent their hard currency to Northern banks. About 20 to 25 percent of borrowing was for military products, which are inherently unproductive. Only 20 percent was actually invested in the countries concerned, and much of that was in unproductive "white elephant projects." Since the borrowed money was not invested productively, it was, in effect, wasted.

Oil prices went up, skyrocketing, from 1973 to 1975. The accumulated debt became extraordinarily expensive to pay back. The IMF said, "We have to clean this up with structural adjustment programs and austerity policies." Suddenly, poor people had to pay back what the rich had borrowed.

Privatization

Under structural adjustment, the World Bank and the IMF have insisted that everything that was public be privatized. Nearly all public companies had to be privatized.

In Niger, for example, the IMF required that everything be privatized, including a purchasing program for farmers' crops and a livestock program that controlled prices and vaccinated animals. Now, some farmers have to pay a private trucker a high fee to take the crop to market. They borrow from loan sharks before the harvest. They receive three sacks of millet and have to pay back seven or eight sacks after the harvest. These huge interest

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payments are a drain. Poor farmers now fail right and left. They and their families go hungry.

All through the 1980s and early 1990s, the World Bank published an annual list of companies that had been privatized in its member countries under structural adjustment programs. Every year I counted approximately 1,300 to 1,500 companies a year. Some were bought by local elites. The larger ones were bought by transnational corporations at fire-sale, rock bottom prices, especially after the 1997 Asian financial crisis. Goods in the harbor on ships could not be unloaded, because the importers lacked the cash to pay for them. Economic growth declined eight to ten percentage points in these indebted countries. But, this was a huge opportunity to buy up valuable properties on the cheap. American and Japanese companies snapped up companies which could not pay the 18% interest demanded by the IMF.

The banks in Mexico are now 95 percent American owned or controlled, even if they have Mexican names. After twenty years of these forced privatizations, anything of value has already been taken over. When the private sector takes over, consumers pay higher prices because they are not treated as public services any more.

Poverty from FLIC: Financial Low Intensity Conflict

What I call "financial low intensity conflict" has largely replaced overt forms of colonialism. Debt is a more effective tool of control than arms. You do not have to hang people or march them to the gold mines. You can control them through finances.

The South can never pay back the interest they theoretically owe from loans in the 1970s or 1980s. If Africa is supposed to pay back about twelve billion dollars a year, they can only pay back six or seven. The extra five or six gets added to the principal. Now they owe more interest because the principal is greater. They cannot win this game. For many years, I contended that this was intended, but I could not prove it. John Perkins, author of *Confessions of an Economic Hit-Man*, can prove it. He can say, "I was there; I did this on the order of so and so." We now know there was a plan for extracting resources. It is no accident that poor countries have been economically recolonized with debt.

I once asked a Brazilian minister why he did not organize other finance ministers to refuse or reduce debt payments. He said he had tried, but the two countries he contacted got phone calls from the US State Department, explaining the consequences of going along with this plan. That is how le-

verage works. These transactions are not visible, unlike when we send in the army. Most people are simply not aware of what goes on.

So we underpay for commodities, and we continue to extract money every year on a debt which we know will never be paid. We are selective about immigrants, but we often take the best brains and the best brawn from the South. All and all, I would say the North has more control over the South than in the nineteenth century.

The Importance of Debt Relief

There have been lots of campaigns to suspend or forgive debt. They have had a little success. Lenders could reduce interest rates or simply cancel the debt. But that would mean losing political leverage. Since 1997, when the first anti-debt campaigns really got off the ground, the IMF, the World Bank, and Northern governments have been dragging their feet. They claimed to need three years, then another three years. Even now, debt relief has been given to very few countries.

Debt relief has directly benefited the local population. In Tanzania, they eliminated school fees. The enrollment of girls in school shot up by two-thirds. When a family is poor and can only educate one kid because there are fees, they will send the boy. Yet, statistics show that three more years of education for girls reduces the birth rate.

We have been profiting from debt repayments for twenty-five years. Enough is enough. We should let those people try to develop. Debt relief would amount to hundreds of billions of dollars a year, far greater than the aid given (and without the strings attached to aid). So we could improve their life situation quite easily. African debt is peanuts for us, frankly. It is huge for them, but for us, it is very little.

Debt Boomerangs: How Debt in the South Hurts the North

I wrote a book called *The Debt Boomerang* in the early 1990s. One of those boomerangs is immigration, which is an unnatural phenomenon when it occurs on a mass scale. But if you do not allow people to make a decent living where they are, they will migrate in search of a better life. When they arrive, often transported by criminal gangs, we act surprised. But our actions have forced people to do that. A second boomerang is the environment. If you have to pay back interest, you are going to chop down trees, mine the ores, exhaust natural resources, over-fish, over-farm, and mine the soils instead of protecting them. Is this what we want? A third boomerang is in

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terms of drugs flowing in, because that is a very lucrative business, when most everything else is not. A fourth boomerang is on exports and, therefore, on wages in the US and Europe. If you want to export, someone has to be able pay your prices, which means they have got to earn a fair income. Trade is always a two-way street. But the repayment of debt sterilizes money and takes away income from the people who might buy our products. We are not selling what we could normally sell to these countries if they had a normal progression of wealth.

There are many impacts which are boomerangs, because they come back and hit the people who threw them to begin with. But ordinary people in the US or Europe are not responsible for this. Their governments are responsible. A very small elite has organized the debt crisis since 1982, but they keep their arrangements in the dark.

Odius Debts

When I was in Brazil last July, I asked a lot of people from the Brazilian government, who were in the same conference, if they did not consider using the doctrine of "odious debt." This legal concept, invented in the 1920s by a former Russian Tsarist economics minister, says that debts should not be paid if they were accumulated by people who were illegitimate. In Brazil, money borrowed by the generals never benefited the population. That is odious debt. The Brazilians in the finance ministry were reluctant to investigate how much of their debt was "odious." They do not want to upset the creditors. I asked the same question in Uruguay. They are not looking into the question of odious debt at all. They could distinguish odious and legitimate debts and pay interest only on the latter. But it seems they are not going to do it.

Also, these countries could jointly declare a moratorium on debt repayments. The debtors could say, "This year we will pay back twenty percent less, next year forty percent less, etc." They could give notice. But this does not happen. It is all very well in the North to push for debt reduction, but we need a little help from our friends.

Globalization and Corporations

Globalization by itself means nothing. Globalization in practice has meant neoliberal globalization or market-led globalization. So globalization has contributed to inequality.

For the first time, in about the last fifteen or twenty years, what Henry

Ford said in the US does not work any more. Henry Ford said, in the 1920s, "I pay my workers enough so they can buy my cars." That simple formula worked as long as laws were national. Globalization destroys that. When you can cross a boundary, you can find someone to produce cars at a lower wage.

With globalization you have a situation where anyone can invest anywhere. A transnational corporation is going to take advantage of this in order to get the cheapest labor with the highest qualifications. So China is turning out to be the best place to invest. Nokia, which produces mobile phones, has five research centers in China, where 900 graduates in science and technology work for 10 to 20 times less than Western scientists.

We should not globalize jobs to China, which is not only the most populous country, but also has the biggest lid on labor. It is a very repressive country. How fair is it for people who have free markets and trade unions to compete with people who have no trade unions, who are not free, and who cost twenty times less?

There are people who propose a rule that says, "Site here to sell here. You should have a plant here and sell the production of that plant. If you locate elsewhere, you cannot sell to us." Many ideas like this are floating around. Globalization has necessarily increased the power of corporations.

Wealth Distribution

Redistribution of resources is extremely important. For example, Brazil is one of the most unequal countries in the world, where there are huge landholdings and others who have nothing.* Several hundred people have been settled on the land that belonged to plantations, and they can now produce for their families, but some landless people have been killed trying to occupy land.

In other countries, including Europe, small farmers are being thrown off their land. We need to increase access to land by people. There need to be safeguards to prevent exploitation of farmers by buyers who underpay for the produce. Farmers need credit at a reasonable interest rate, not 25 or 40 percent. So land reform involves more than giving away land. It also means distributing credit and having private or public purchasing offices that are honest. It means putting in infrastructure in the countryside such as decent roads, so that a farmer can earn enough to stay on the land.

* Ed.: Ms. George explains the desirability of returning to a system in which progressive taxation supports various social services, similar to the New Deal and subsequent programs in the US. Neoliberalism has reduced income redistribution and fostered growing income disparities by allowing the market to decide everything.

Democracy*

When we criticize the West because of its role in oppressing the rest of the world, we should also remember that Western countries invented democracy in the 18th century. I have no problem saying that democracy, as it has been practiced for some 200 years, is a good thing for those who have been able to benefit from it.

The latest proposed constitution of the European Union seeks to put the economy first. It is as if they were saying, "Democracy was an acceptable parenthesis for 200 years, but now let us allow the experts to get on with it. Let those who have the money and influence make the decisions."

If you give people a chance to make their voices heard, they will do so, and they will make decisions which are intelligent ones for the whole society. That is why I welcome the election of Lula in Brazil, Evo Morales in Bolivia, and Hugo Chávez in Venezuela, whom the US is probably trying to get rid of, but who have been elected more times than most US politicians.

The WTO

The World Trade Organization (WTO) is another undemocratic, but very powerful organization. The WTO is based on a trade agreement that does not just cover goods. It covers services, intellectual property, pesticides on exports, and standards or regulations that are considered "technical barriers to trade." It covers all of the services, including those often considered public services. This organization, which is not even part of the UN, is extremely powerful.

Another reason the WTO is powerful is its "Dispute Resolution Mechanism." It can hear disputes between countries, and give a verdict, and then propose to the winner that they sanction the loser. For example, the US challenged Europe on hormone-fed beef, because the Europeans were refusing to import hormone-fed beef on the grounds that it might be dangerous. The US said, "This is trade restrictive, and you have not proved anything

* Ed.: Regarding political participation, Ms. George urges other cities around the world to follow the example of Porto Alegre, Brazil, which includes citizens directly in the budget process to minimize corruption. A lot of the corruption in the world involving misuse of funds from mineral wealth stems from lack of transparency. The World Bank or IMF could correct the present situation by making government transparency a condition for receipt of loans. But since international financial institutions are themselves opaque and governed on the basis of "one dollar, one vote," they are unlikely to promote participatory democracy.

about health.” So the US won and immediately applied sanctions, including a 100% duty on Roquefort cheese. After that, there were no more American purchases of this cheese. So Roquefort farmers, sheep raisers, who live in a very poor part of France, with only sheep pastures as a source of livelihood, suddenly lost 30-50% of their sales, even though they had nothing to do with blocking hormone-fed beef. That kind of sanctioning is still going on. We need fairer trade rules that take labor rights, human rights, and environmental needs into account. That is what I am working on personally, because I think this is a hugely urgent project. Now that the talks are stalled in what is called the Doha Round, they go for bilateral agreements which may be even more demanding on partner countries. So, maybe you win one here but you lose something on the other side. It is always an uphill fight.
