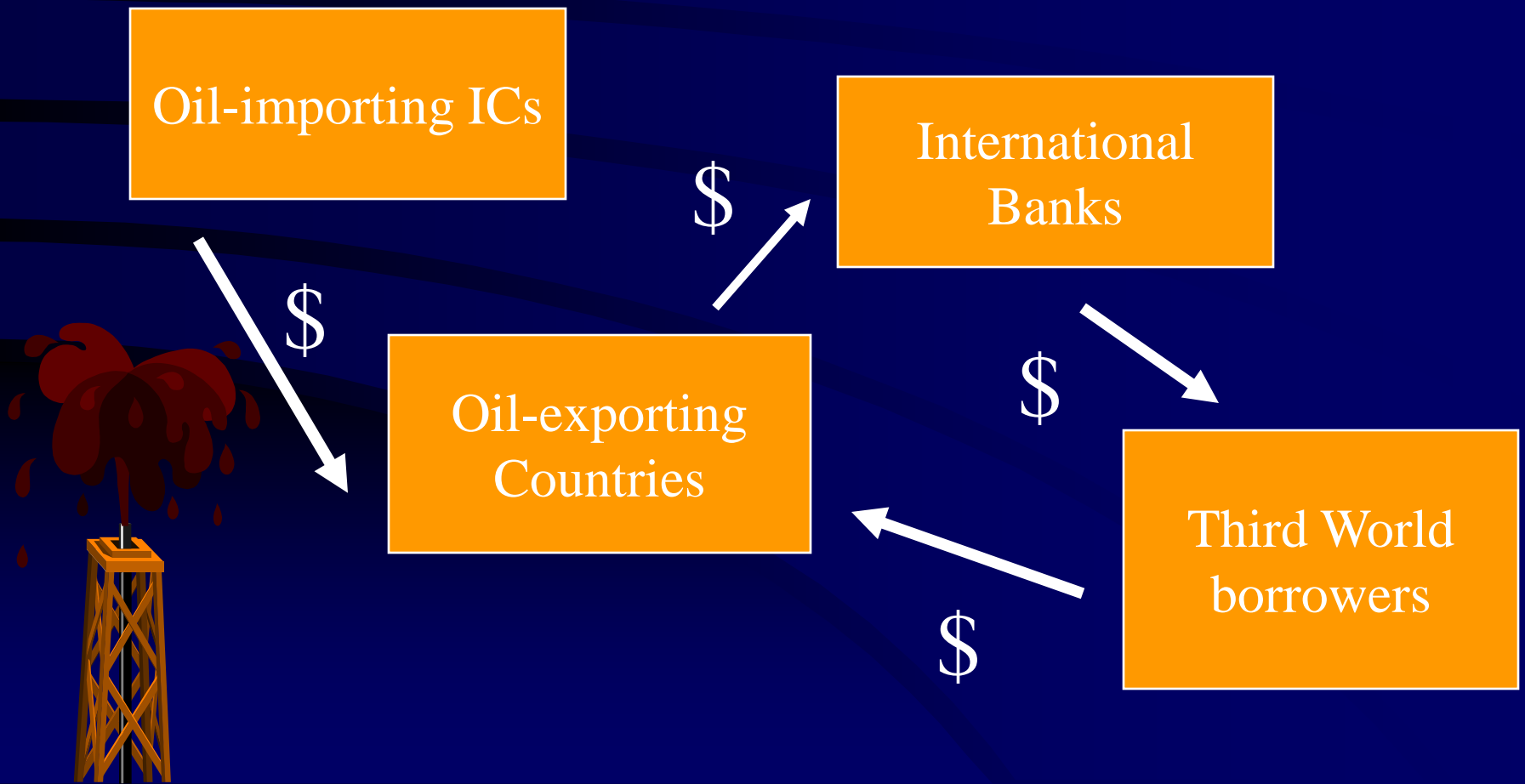


Y376 International Political Economy

October 8, 2009

Petro-Dollar Recycling



Debt Renegotiation and Rescheduling

- Negotiation between borrowing countries and major creditors (mostly private banks)
- IMF gets involved in endorsing structural adjustment programs in borrowing countries
- Structural adjustment usually involves:
 - reduced government spending
 - currency devaluation
 - export promotion policies

Problems of Cooperation in Debt Negotiations

- Conflict between banks and debtor countries -- “moral hazard”
- Conflict between banks and lender countries about how to report non-performing loans
- Conflicts between lead (larger) banks and smaller banks over new lending

Debt Crisis Management

<i>Period</i>	<i>Name of Plan</i>	<i>Description</i>
1982-84	IMF Austerity	Rescheduling, new lending
1985-89	Baker Plan	New lending, pro-growth
1989-	Brady Plan	Debt reduction
1996-	HIPC	Debt reduction



Baker Plan 1985

- Loans to cover interest payments were made with conditions:
 - Privatization of state enterprises
 - End to subsidies
 - Opening the economies to foreign investment
- 12 of 15 large debtors complied
- Soon comprised 20 percent of all World Bank (WB) debt



Brady Plan - 1989

Treasury Secretary Nicholas Brady

- Sought to attract investment by reforming economies
- Encouraged cooperating private banks to reduce their claims against LDCs
- Used **new** IMF (International Monetary Fund)/WB funding to collateralize debts in the form of new bonds - in other words, multilateralized the debt

Debt-Equity Swaps

- Assets could be used to offset debt
- Because of discounting, the face value of debt forgiveness would exceed the value of the forfeited asset
- The lender or other redeemer of the debt would acquire a tangible asset at a discounted price

Used by Chile and Mexico to reduce debt

Debt-for-Nature Swaps

- Governments cede development rights of environmentally valuable land in return for debt forgiveness
- Eleven developing countries are partners with the United States under the 1998 [Tropical Forest Conservation Act](#) (TFCA), which aims to help save the world's tropical forests by forgiving some of the official debt owed by these nations to the United States

Example: Costa Rica Rain Forest

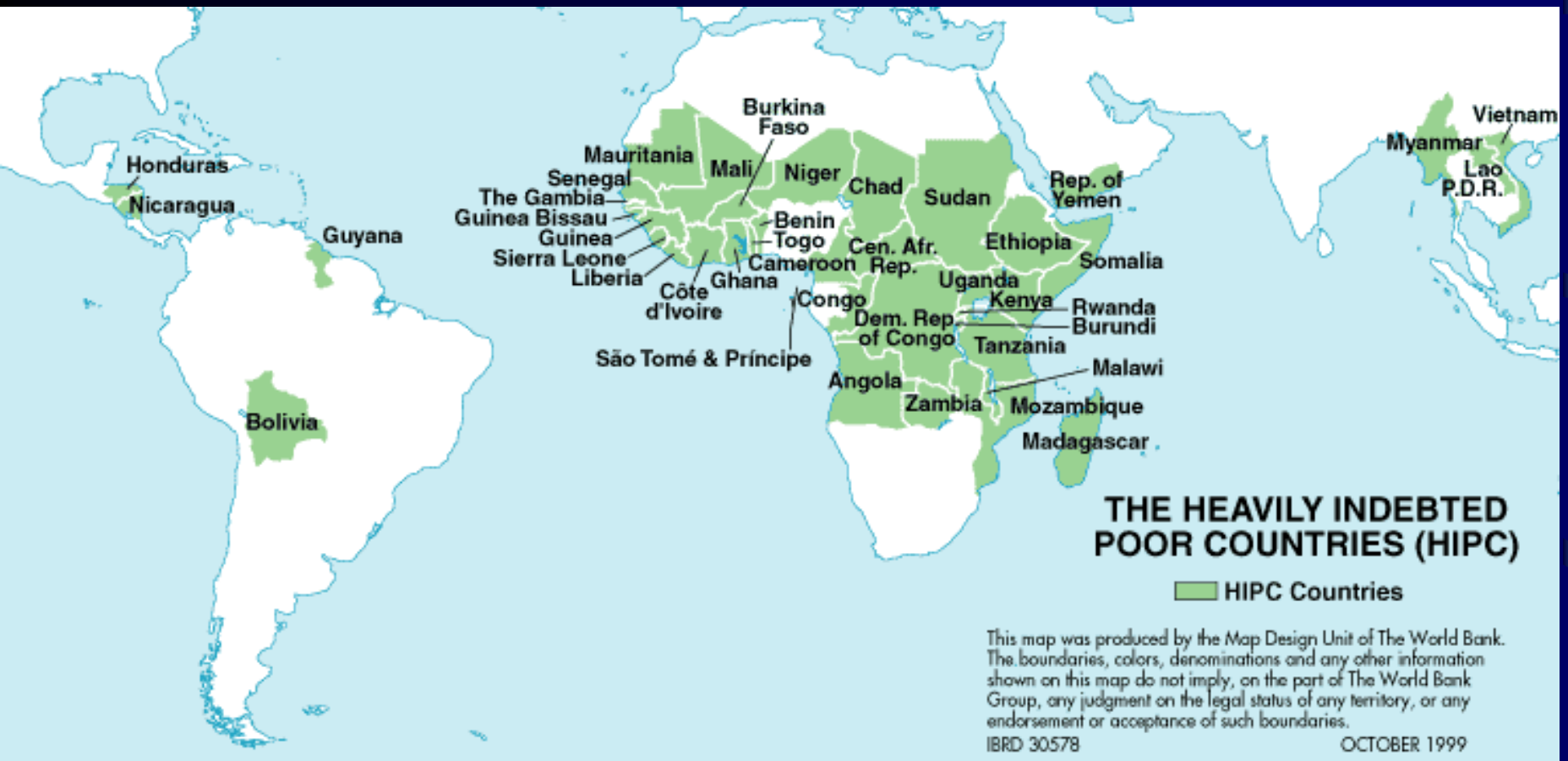




HIPC Strategy

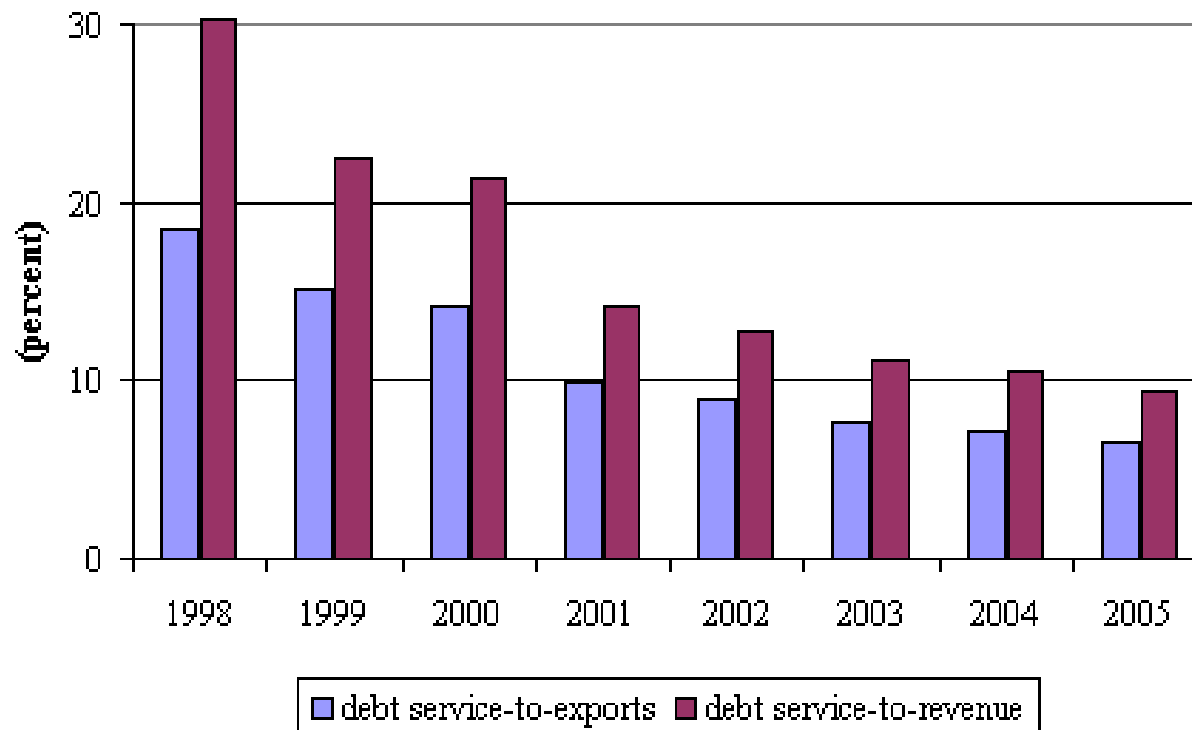
- HIPC stands for Heavily Indebted Poor Countries
- Started in 1996, reformed in 1999 to be more generous and inclusive
- Relief must be applied transparently to programs to alleviate poverty

HIPC Countries as of 1999



Preliminary Results of HIPC

Chart A. Debt Service Ratios after HIPC Debt Relief for 23 Decision Point Countries 1/



Sources: HIPC country documents; and World Bank and IMF staff estimates.

1/ Simple averages.

Bono and Bill Gates Campaign for Debt Relief



The Washington Consensus

- The **Washington Consensus** is a phrase initially coined in 1987-88 by John Williamson to describe a relatively specific set of ten economic policy prescriptions that were considered by the phrase's originator to constitute a "standard" reform package promoted for crisis-wracked countries by Washington-based institutions such as the International Monetary Fund, World Bank and U.S. Treasury Department.

The Ten Recommendations

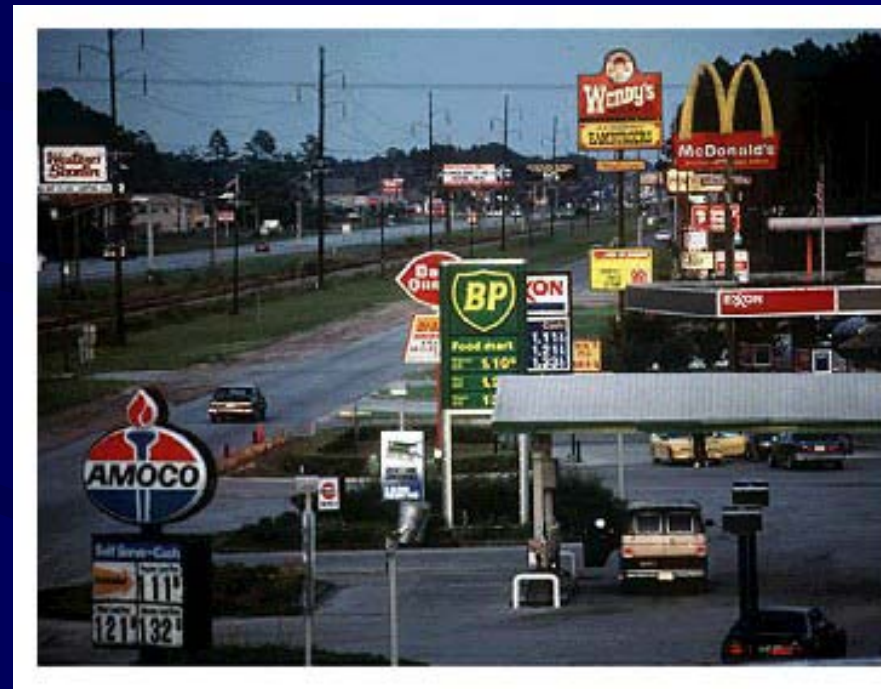
- Fiscal policy discipline;
- Redirection of public spending from indiscriminate (and often regressive) subsidies toward broad-based provision of key pro-growth, pro-poor services like education, health and infrastructure investment;
- Tax reform – broadening the tax base and adopting moderate marginal tax rates;
- Interest rates that are market determined and positive (but moderate) in real terms;
- Competitive exchange rates;
- Trade liberalization – liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
- Liberalization of inward foreign direct investment;
- Privatization of state enterprises;
- Deregulation – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions; and,
- Legal security for property rights.

Challenges for Global Governance

- Predicting and averting financial crises
- Increased political resistance on the part of anti-globalization groups
 - Organized labor
 - Environmentalists
 - Marxist and neo-marxists
 - Indigenous groups
 - Anarchists

Nightmare Scenarios of the Anti-Globalization Movement

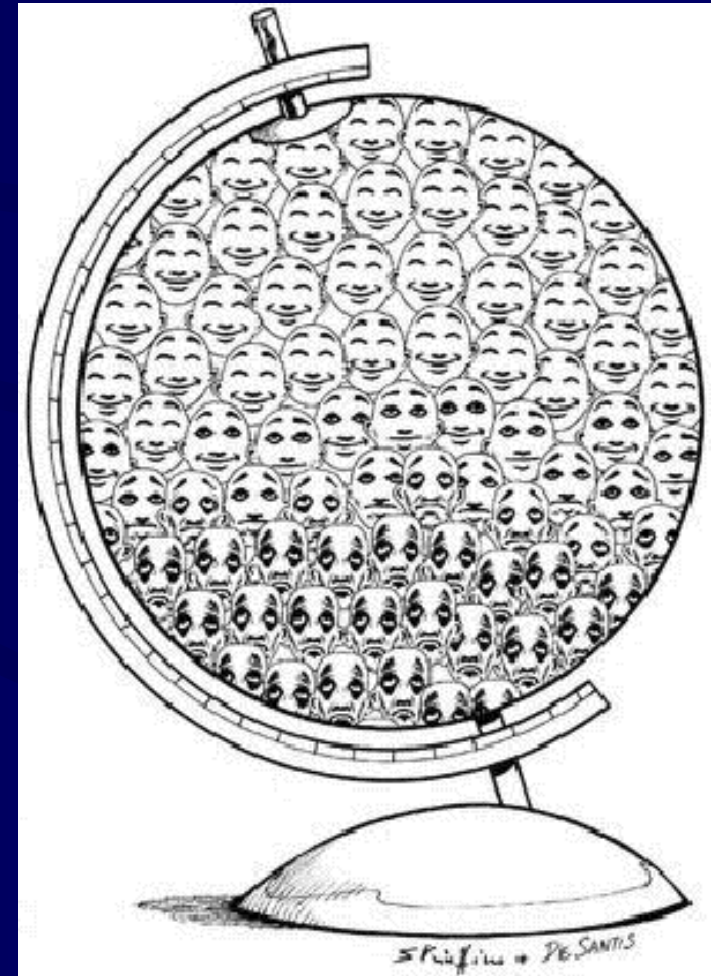
- A homogeneous polluted world dominated by MNCs
- A global culture dominated by corporate advertising, logos, and the erasure of local cultures



versus



Global Inequality Remains a Serious Problem



The Defense of Globalization

- Globalization brought prosperity to the wealthy democracies of the North.
- The export-oriented countries of East Asia have greatly increased their per capita incomes.
- Most governments in the South and the formerly communist nations have accepted key aspects of the Washington Consensus.
- The potential for using further liberalization of the world economy to alleviate poverty needs to be explored.