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No relief for Third World debtors

The new "Third World development" program of the German government is a fraud.

'A dangerous time bomb is ticking that has to be defused now, to prevent serious damage to the world banking system." So said West German Chancellor Helmut Kohl at the June 20-21 Toronto summit of the top seven Western industrial nations. But behind the fine words, there is no program to deal with the crisis.

Kohl presented his own cabinet's decision of June 8 to write off 2.2 billion deutschemarks ($1.26 billion) of bad debt for a select group of eight African countries.

This only involves countries which are in no position to pay anything anyway. No debts are written off for "wealthier" countries, like Nigeria. German Finance Minister Gerhard Stoltenberg expects he will get the same DM 1.2 billion that "good debtors" in Africa paid back in 1987, also this year. In a word: No debt relief for the majority of Africa.

This episode illustrates the state of Third World policy in Bonn. With back-up from the Third World Affairs Ministry, Chancellor Kohl has repeatedly announced broad initiatives for economic recovery in the developing countries. Reality of government policy is, however, shaped by the Ministry of Finance, opposing debt relief "in principle, because it sets a very bad trend."

But the same Finance Ministry agreed that DM 2.2 billion of debt be written off now, didn't it? It did—and did not. This program only involves state-to-state debts; no pressure is exerted on the private banking sector to write off commercial debts. The program is not meant as the first political step in the direction of a general debt moratorium, but is designed to promote a case-by-case approach against a global debt settlement.

The government's tricks on the debt issue have come under criticism from Germany's churches. On June 22, Norbert Herkenrath of the Catholics' Third World aid program, Misereor, expressed dissatisfaction with the "Toronto debt relief agreement." "The private creditor banks, too," the prelate told *EIR*, "have to take their share of the debt relief, and it would have been good if the governments of the summit had put some pressure on the banks, to have them join the talks on the debt problem."

A public critique was issued at the June 21-22 session of the Joint Church Commission on the Developing Sector, which convened in Berlin. Catholic Bishop Franz Kamphaus, who had denounced the International Monetary Fund (IMF) as a "gang of street-robbers" in a parliamentary hearing in April, said that "the debt crisis not only threatens the developing nations and paralyzes their economic potentials, but is a threat also to the world banking system as a whole and to world trade." Only a "mutually agreed debt amnesty" between the Third World and the industrialized creditor nations, Kamphaus said, would help to restore a functioning world economic order.

It is important to point out, however, that the Catholic Church of Germany, in spite of its harsh criticism of the IMF, is not for the abolition of this monetarist institution, but only for its reform. The Church wants the IMF to be turned into a money-lending, rather than money-gathering institution. This won't work, and if the Church doesn't want to chase dangerous illusions, it will have to recognize that there is no substitute for a new banking system for Third World credits.

Both churches in Germany, Catholics and Lutherans, know (and stated publicly on May 16) that writing off old debt is solving only one part of the problem; offering new credit for economic reconstruction at low interest rates, is the other, bigger part of the solution.

In the Federal Republic of Germany, there is a tacit accord between the government and the bigger banks, to block every move in the direction of a general debt moratorium. To overcome certain problems with the debtors, the government permitted tax rebates for German banks, on the condition that they write off a part of the bad debts. The government also allowed the banks to compensate for their losses, by raising operational costs on bank accounts, trading with assets, and the like. It is the taxpayers in Germany who pay the banks, of course.

No doubt there are limits to this kind of debt transfer. The combined taxpayers of the seven Toronto summit nations will not be willing or able to pay for the $200 billion of Third World debt that the seven heads of state said they want to write off over the next few years.

Besides that, is the German government actually willing to grant new credit to the developing sector?

Currently under discussion in Bonn is a recent OECD study proving that, despite the big speeches, there is an absolute decrease in Third World aid. Between 1987 and 1988, the German government's budget for Third World aid programs shrank by almost 7%, and the German banks reduced their lending to developing nations by 14%.

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