

Luiz Bresser Pereira

Undeclared Moratoria: A False Solution

The practical results of the strategies in relation to the debt crisis are, up to date, meager. Highly indebted countries face economic stagnation and high rates of inflation. Most highly indebted countries are today in a situation of undeclared moratorium. This is true for Brazil, for Argentina, for Venezuela, for ... This fact is obviously a consequence of the incapacity to pay of these countries combined with the quite understandable banks' refusal to finance even partially the interests due. It is, however, also a consequence of a new fact: business elites in the highly indebted countries are becoming increasingly favourable to undeclared moratoria, in spite of their fear of retaliation, in spite of their dependent relation to the creditor countries, in spite of their permanent hope to obtain good will from the creditors by paying as much as they can.

These undeclared moratoria are not a solution for the debt crisis. The same is true, on the other hand, in relation to the Brady Plan, whose shortcomings are becoming increasingly clear. This plan, however, recognized that a substantial debt reduction is an essential part of the solution of the crisis. How can this debt reduction be achieved if the Brady Plan is too limited and voluntary debt reduction only worsens the critical situation of the highly indebted countries? Probably through unilateral or quasi-unilateral decisions taken by the debtor countries in the context of adjustment programmes. Poland, where a bold stabilization plan is presently in action, the transformation of an undeclared moratorium into a decision of reducing the debt is a case in point. This plan has little probability of success without foreign debt reduction. Which will be the reaction of the creditor countries - of the elites and the government in these countries - if Poland decides in a quasi-unilateral form to reduce its debt to one third? Will they be

understanding, acknowledging that in practical terms there is no other alternative, or will they respond aggressively to such a move?

1. Since 1987 we have seen a progressive change in the attitude of the elites in the highly indebted countries in relation to the debt. This phenomenon is quite clear in Brazil. The successive failure of each strategy coupled with the deepening crisis in their countries - a debt crisis turning internally into a fiscal crisis - led the business elites to change their attitude towards the question. From a passive and fearful attitude of complying with the demands of the creditors we may see today a clear change to a more positive position where a unilateral decision to reduce the debt as a start for a new round of negotiations should not be dismissed. On the contrary, the clear limitations of the Brady Initiative, and, on the other side, the bloody popular reaction to adjustment in Venezuela, the hyperinflation in Argentina, and the widespread recognition in Brazil that a moratorium on the external debt is an essential part of the strategy to avoid hyperinflation as it allows for the increases of the international reserves. More than that, it became clear recently for the business elites in Brazil that the solution for the fiscal crisis will necessarily include a reduction of the public debt. This public debt was originally external, but today is increasingly internal. Thus a moratorium on the external debt is an alternative to the moratorium in the internal debt - an alternative that the business elites are increasingly understanding as a good solution.

The strange thing is that in the creditor countries a similar attitude is developing. Being "realistic" their governments see no other alternative than the undeclared moratoria. In some cases they even "manage" the moratorium. This was the case of Argentina in 1988. Seeing that Argentina had no possibility of paying interests, the U.S. Treasury

oriented the Argentinean authorities in relation to the arrears. "Now you don't pay ... now you pay something", they used to say. We know the results. The undeclared moratorium began around March 1988 in Argentina; one year later Argentina faced hyperinflation.

2. Undeclared moratoria are a very negative form of responding to the debt crisis, as long as nothing is really solved. Economic theory says that economic agents behave according to expectations. How is it possible to expect that economic agents reduce their expectations in relation to inflation in the highly indebted countries, whereas they see that a substantial part of the public deficit is originated in the interests paid by the state on the foreign debt? How is it possible to expect that they decide to invest in these countries when they see the enormous debt overhang?

On the other hand we are convinced that the Brady Plan represented a great step towards a correct analysis of the debt crisis, as long as it officially recognized that debt reduction is an essential part of the solution of the problem. It is not realistic, however, to expect that it will solve this crisis, as long as a voluntary approach was adopted to debt reduction and the plan is underfunded; World Bank and Fund do not dispose of enough capital to make the plan really work. It is also not realistic to expect that the creditor governments will do much more to solve the debt crisis of Latin America. Actually, given the economic and political limitations, the U.S. government went most likely as far as it could with the Brady Plan.

Thus, if undeclared moratoria are a bad solution, if debt reduction is essential, if gradual, voluntary, market controlled debt reduction is not consistent with the solution of the crisis, if the shortcomings of the Brady Plan are quite clear, and if we cannot expect bolder initiatives on the part of the creditor countries, it becomes clear that

debt reduction will only be possible through unilateral or quasi-unilateral debt reductions decided by the debtor countries, as part of larger stabilization programmes.

We say quasi-unilateral decision because the decision does not need to be fully unilateral. Negotiations will necessarily take place between the debtor and the creditor banks. It would be desirable that the stabilization plan would be undertaken under the supervision of the IMF. The structural reforms should have the orientation or the participation of the World Bank. But the debt reduction would have a basically unilateral character as long as the government of the debtor country would inform the creditor banks - including the banks of the Paris Club - that it would only be able to pay the banks that agreed to reduce the debt and to extend it for around thirty years.

At the same time this government would orient the people engaged in calculating figures for the balance of payments and for the government budget that the part of the debt and the corresponding interests that were reduced should be eliminated from the accounting statements. In this way expectations of economic agents would not be anymore influenced by an enormous foreign debt that they know cannot be paid, nor influenced by large interests due and not paid.

The change from undeclared moratoria to quasi-unilateral debt reduction will depend very much, on one hand, on the courage of the governments of the debtor countries and, on the other hand, on the attitude of the creditor countries - and of the multilateral agencies - in relation to such a decision. Personally we believe that this attitude will not be very aggressive. The elites in the creditor countries know that the debt cannot be paid and that the Brady Plan is not a realistic solution for the problem. They know that their national interest in relation to the debt countries

changed. That in the beginning the muddling through approach was necessary to protect the banks, but that now it is not anymore.

Unilateral debt reductions are being expected in the creditor countries as it becomes clear that there is no other alternative left to the debtors. Thus the question of how to face these unilateral decisions must begin to be overtly discussed in the creditor countries. What is not reasonable is to insist in the muddling through approach, pretending that a fully negotiated solution will be achieved.

An Additional Comment

I read in the newspapers in Brazil or in the newspapers in the United States, in France, in Germany, about an enormous preoccupation about the Amazone forest. We Brazilians also are very worried about the Amazone. Maybe not so much as you are, but we are also. Not so much because we have other worries.

But what bothers me very much is the following. Why are you so worried and do so little? If the Amazone forest is an asset for humanity, why don't you, the rich countries of the world, why don't you put your money there? Why don't you do what one famous singer, Sting, did: He created a foundation to protect the Amazone forest. To protect a forest is very expensive and you have to do a lot of things. You probably know how expensive it is to protect the forests here in Germany. So, it is very expensive. There are a lot of small interests of hundreds of thousands of people that are willing to destroy the Amazone and I think that what should be done is to put money there. Specifically for foundations that would organise and protect the Amazone.

I think that the Brazilian government would have no opposition to this, on the contrary, we conceived this very strongly. But I never say it should be the job of the Brazilian government alone or the Brazilian people to do this. I understand that Brazil has also this commitment and this responsibility, no doubt about that, but I think that if it is really a thing that humanity, or at least Europe, the United States, Japan are interested in, well, why don't you pay for that?

And please, not with these debt-equity swaps or debt-nature swaps. This is ridiculous. There are some ecologists in Brazil talking about that. Now there is a very famous ecologist in Brazil who is Secretary of Environment (José Lutzenberger) and he is for these equity swaps and nature swaps. He does not understand anything about monetary things and those questions for sure.