The Debt Crisis and its Implications for Democratization in Latin America and Africa

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In an earlier article I discussed the authoritarian implications of the process of economic reform in Third World countries stimulated by global recession and the debt crisis[1].

Although the argument at the time did not sufficiently acknowledge the process of democratization then underway in the Latin American countries, the passage of time has not changed my basic conclusions. If anything indebtedness has become an even more oppressive reality in economic and political life in Third World countries since the original debt crisis in 1982. Since then the total debt of Third World nations has risen an additional 50% from US$842 billion in 1982 to US$1,217 billion in 1987. Expressed in terms of its relationship to exports of goods and services average debt ratio has risen from 119% to 158%[2]. Total service (principal and interest) on long-term debt has risen more modestly (after rescheduling) from US$97.4 billion in 1982 to about US$101 billion in 1986. However in the same period net transfers fell from US$18.4 billion to about US$29 billion as banks sharply contracted lending to debtor countries[3].

Export of capital to creditor countries and institutions, deteriorating international financial and trading conditions, and harsh adjustment programs have combined to produce unprecedented austerity and hardship in the indebted countries. This in turn is diminishing the space for democratic practices, already restricted in countries with frequently authoritarian histories. In both regions there are, apart from debt, social, institutional and other factors inhibiting democracy, and these vary between Africa and Latin America as well as between individual countries. Secondly the recent democratic experiences of Africa and Latin America have diverged significantly, with rapid progress toward demilitarisation and political

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1 Eboe Hutchful, 'The Modern State and Violence: the Peripheral Situation', *International Journal of the Sociology of Law*, 14, 1986.

2 IMF, International Monetary Fund, *Annual Report*, 1988, Washington D.C., International Monetary Fund, p. 33.

3 World Bank, *World Debt Tables 1986*, Washington D.C., World Bank, p. xxiii.

liberalisation in Latin America since the late 1970s, while much of Africa on the other hand remains under military rule. Thirdly the different debt-structure of the African and Latin American countries, and more importantly differences in economic and bargaining power (an area in which important distinctions exist between the Latin American countries as well), have created different 'spaces' for democratic practice. While it is thus not easy to separate the effects of debt from entrenched structural and institutional factors or to generalise from contrasting regional and country experiences, the imposition of similar adjustment and debt-rearrangement regimes has introduced certain common elements into the political situation in the debtor countries. This has created conditions in both regions which as a whole do not support the consolidation of democracy.

The Situation in Latin America

In Latin America the fate of democratisation is linked directly to the debt crisis in a number of ways. First the onset of the debt crisis in 1982 coincided with the democratisation or liberalisation of the political process in a number of Latin American countries, with elected civilian regimes replacing authoritarian and repressive military regimes. In the 1960s and 1970s Latin America appeared to be caught in a sweep of militarisation of its state structures; the number of military regimes rose from 6 in 1960 to 13 in 1976, including all the largest and most developed states (with the exception of Mexico). By the end of 1985 however only 4 countries remained under formal military rule; the 'return of democracy' in Guatemala in early 1986 shrunk this number to 3. The return to civilian rule in Brazil in March 1985 appeared to have completed a continent-wide cycle begun by the Brazilian *coup* of 1964. Even in Mexico, where regression into authoritarian military rule had been avoided, a process of liberalisation of the PRI's single party rule was commenced with the political reforms of 1977, intended to increase the number and ideological diversity of competing parties and the representation of opposition parties within the political structure. Chile remains the significant exception to this trend. Even here however after progressive personalisation of his rule and its extension through various devices, the defeat of Pinochet in the recent referendum promises to bring his brutal régime to an abrupt end.

In most of these countries the process of democratisation remains formal and circumscribed, incorporating various institutional and ideological constraints on the civilian regimes and restrictions on the effective participation of the popular sectors[4]. What has been installed is not democracy in the conventional Western sense but rather a;

> *form of restricted or limited democracy where civilian governments are elected through regular procedure with the exclusion of significant social actors. Not only are actors excluded from the political arena, but important policy areas such as defense, foreign investment, international alignments and finance are left outside the political debate*[5].

Furthermore,

> *these regimes have been formally redemocratised without altering any of the social, economic and political factors that unleashed undemocratic tendencies in the first place.*
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> *While flagrant human-rights abuses have been ended, even in Argentina the repressive apparatus that serviced the military regime has been left largely intact, while leaving unaddressed the question of the subordination of the military itself to civil authority. The power and institutional autonomy of the military itself has been preserved, ready to re-intervene should the civilian regimes falter or the social order or system of international alliances be threatened*[6].

Even given their limited nature the timing of the debt crisis could not have been more problematic for these transitions, although it must also be recognised that the decision by the military regimes to reinstate formal democratic processes was not always taken independently of the economic crisis. The democratic regimes thus came to power under stringent, even desperate, economic conditions: unserviceable foreign debts, falling export prices and collapse of the oil market, aggravated by the depreciation of the US dollar, severe import compression, historic levels of domestic inflation, high unemployment and negative growth rates. The solutions demanded by the international banks and the IMF in return for a measure of debt relief have been stabilisation policies that have stimulated domestic recession and unemployment in return for marginal, and sometimes negative investment and trade gains.

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4 For a study of the processes of democratisation in Latin America, see Guillermo O'Donnell, Philippe Schmitter, and Laurence Whitehead (eds), *Transitions from Authoritarian Rule: Latin America*, Baltimore: Johns Hopkins University Press, 1987.

5 Nef, Jorge, "Redemocratisation in Latin America or Modernisation of the Status Quo"? Paper presented to *Global Development Week*, University of Toronto, 15 January 1986, p. 56.

6 Ibid.

The genesis of the debt crisis was rooted in the economic policies of the dictatorships. Following the earlier period of capital-intensive import-substituting industrialisation accompanied (particularly in the Brazilian case) by low labor absorption, these policies emphasized export diversification and promotion of manufactured exports; the creation of extensive backward linkages into the intermediate and capital-goods sectors on the basis of a 'triple alliance' between the state, foreign multinationals and local capital, accompanied in the Brazilian case, both by considerable statisation and denationalisation of strategic economic sectors; large scale importation of capital and intermediate goods; forcible repression of mass consumption and political exclusion (in the case of Mexico controlled incorporation) of the popular sectors. This capital and import-intensive strategy placed heavy reliance on foreign borrowing and on the encouragement of direct foreign investment, and in Mexico from the later seventies, on petroleum surpluses. In the case of Chile a similar process of internationalisation of the economy was combined with dismantling of the state enterprise sector.

The strategy underlay the 'economic miracle' and high growth rates that characterised in particular, Brazil and Mexico producing in the Brazilian case annual increases of almost 11% in GDP. Brazil's exports of manufactures grew at average annual rates exceeding 50% between 1968 and 1973 while Mexico's grew by 37%[7]. The negative side of this 'miracle was the rapid growth of the international debt; from 1967 to 1975 Brazil's debt rose at an average annual rate of 27%. Following the global recession and export slowdown of the mid-seventies the country continued to draw heavily on foreign loans and credits (now freely available on the Eurodollar market) and on deficit financing to finance its imports and trade deficit and to maintain the growth rate[8] This pattern of industrialisation also resulted in a highly 'dualistic' structure, with an industrial structure that in productivity and contribution to total product approximated that of the industrialized countries, but coexisting with an occupational structure typical of underdeveloped countries and characterised by pronounced intersectoral differences in output per worker; and a demand profile that combined a small but sophisticated and highly diversified (luxury) market with a relatively large (wage subsistent) market of low diversification[9]. It was also characterised by highly skewed income distribution patterns and extreme

7 Graham, Douglas H., "Mexican and Brazilian Economic Development; Legacies, Patterns, and Performance" in Hewlett and Weinart (eds), *Brazil and Mexico: Patterns in Late Development*, Philadelphia: Institute for the Study of Human Issues, 1984, p. 49.

8 Ibid, p. 29.

9 Furtado, Celso, "The Brazilian Model of Development" in Wilber C.K. (ed), *The Political Economy of Development and Underdevelopment* p. 331.

rural and urban impoverishment. In Brazil, where this process of income concentration and social inequity was most parked, the wealthiest 10% of the population increased its share of national income from 39.6% in 1960 to 50.4% in 1976, while the share of the lowest 50% declined from 17.4% to 13.5% within the same period. Indeed in 1976, the top 1% of the population exceeded the entire bottom 50% in its share of national income[10]. Two-thirds of the Brazilian population is said to consume less than the 2480 daily calories considered to be the minimum intake by the Food and Agricultural Organization (FAO). Illiteracy is 23.9% in Brazil, compared with 17.3% for Mexico and 12.4% for South Korea[11]. In Mexico the richest 10% of households controlled 46.6% of disposable household income in 1963 and 51.1% in 1975, while the share of the bottom 40% declined from 9.2% in 1963 to 8.0% in 1975[12]. In both countries increasing agricultural capitalisation and concentration impoverished and displaced the rural peasantry, with increasing destruction in Brazil of Amazon land and its Indian populations, and forced *ejido* family labour migration in Mexico[13].

In most of the Latin American dictatorships the end of the debt-funded 'miracle' was in sight well before the transition to democracy had been completed. In Brazil inflation hit an all-time high of 211% in 1982. Retail food prices rose by 227.5% and GDP fell 3.9%[14]. Unemployment deepened in spite of a trade surplus of US$6 billion, and foreign investment plunged.

This crisis placed severe strain on the political system and threatened to unravel the carefully conceived 'liberalisation' process. An IMF agreement negotiated at the end of 1982 deepened the recession collapsed early in 1983 when Brazil failed (or refused) to satisfy some of the targets. Criticisms of the 'austerity' by opposition leaders (newly legitimated by their victory in the 1982 elections), and their demands for the dismissal of the Delfim Netto and the economic team that had engineered the economic 'miracle', made it impossible to renegotiate a fresh agreement with the IMF. Roett has painted a grim picture of the 'painful hardships' in Brazil on the eve of the transition to democracy:

10 Hewlett, S.A., "Poverty and Inequality in Brazil" in Hewlett and Weinert, op. cit., p. 318-21.

11 Roett, R. and Tollefson S.D., "The Transition to Democracy in Brazil", *Current History*, January 1986, p. 22.

12 Felix, D., "Income Distribution Trends in Mexico and the Kuznets Curves: Patterns of Late Development" in Hewlett and Weinart (eds) op. cit., p. 268.

13 Graham, op. cit. p. 39.

14 Roett, R., Brazil's Debt Crisis and U.S. Policy" in Richard E. Feinberg and Vallerian Kallah (eds), *Adjustment Crisis in the Third World*, London: Transition Books, 1984, p. 140.

> *The social implications of the crisis have become grave. Crime has risen dramatically in Brazil's urban centers. Hunger and malnutrition are common in both the urban and the rural areas of the country. The number of street children, homeless or abandoned youths, is one very noticeable sign of the crisis. The drought in the Brazilian Northeast is now in its fifth year, and the shortage of food and health care, recognised to have reached crisis proportions, has aroused public clamour for action*[15].

This unpromising scenario could be repeated, in various degrees, for virtually all the Latin American countries. The future of democracy depends on how the new regimes deal with problems posed by a shrinking economic base, entrenched economic and social inequalities, and a polarised political environment. Cotler's assessment of Peruvian democracy can be extended to other Latin American countries:

> *The nation's political prospects and the consolidation of democracy will depend upon the state's capacity for intermediation among sharply conflicting interests and demands in economic conditions that are hard to reconcile with popular participation by broad sectors of society*[16].

What this requires firstly is some formula for incorporating the popular sectors into the political process and, at the economic level, responding to their basic consumption needs, thus breaking convincingly with the political and economic priorities of the former dictatorships. Given the weakness of these regimes, these objectives (the latter in particular) cannot be expected to be attempted in a way that threatens the dominant sectors or the military itself. Needless to say, political incorporation of the popular sectors must depend on effective response to the basic needs of these sectors if it is not to lead to an 'unacceptable' radicalisation of the political process. This paradox is particularly acute in the 'populist' regimes in Argentina and Peru. It implies the ability of these regimes, under relatively stagnant economic conditions, to address issues of economic and social equity, an area that has been excluded from the discourse of 'democratisation' in most countries.

Although the form of 'democratic transition' in most cases imposed political and institutional limits on the ability of the new regimes to deal with fundamental social issues, it is clear that the debt crisis has also placed additional constraints on their options. First the reverse flow of resources is

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15 Ibid, p. 141.

16 Cotler, J., "Military Interventions and the 'Transfer of Power to Civilians' in Peru" in O'Donnell et al., *The Transition from Authoritarian Rule: Latin America*, Baltimore, Johns Hopkins University Press 1985, p. 172.

impairing the regimes' access to the material resources necessary for effective intermediation. Diverting shrinking export surpluses into debt-servicing rather than into basic social services or into imports for expanding production and employment has sharply increased the 'social debt' in the form of basic needs foregone. According to the Inter-American Development Bank, central government expenditures for health, education, nutrition and housing in nearly all Latin American countries have declined since 1980-81, in some cases drastically. Secondly the recessionary impact of adjustment policies threatens (at least in the short term) to shrink further the domestic economic base, particularly in the area of employment generation and government investment in poverty programs. Per capita GNP has been falling more or less consistently in most of Latin America since the debtor crisis; in 1986 only three countries, Brazil, Panama, Colombia had higher average incomes than in 1980. Third and more seriously, given the existing social structure in these countries - adjustment programs may actually exacerbate income concentration. Their market emphasis at the same time hampers the ability to address this through institutional means. Because of the concentration of agricultural productive capacity in most of Latin America export commodity repricing does not benefit the small rural producer to the same degree as in Africa, being preponderantly absorbed by large farmers. This depressed economic situation does not favour the reintroduction of the popular sectors into the democratic political process.

What is the likelihood that the new regimes can respond successfully to these challenges? The historical record is not reassuring. According to Skidmore[17] no democratically elected government in either Argentina or Brazil has ever been able to sustain a stabilisation program. The introduction of such programs has usually provoked authoritarian military takeovers. This is due partly to the traditional polarisation over stabilisation measures, (with business sectors and technocrats in support and the unions, salaried (white-collar) workers, mass parties, and military nationalists opposed to it), and partly because conventional stabilisation measures have had a mixed record in the region. Responses to the debt crisis in the region have been diversified[18]. Mexico has been the most compliant and the most anxious of the large debtors to collaborate with the IMF and the international banks. The government has devalued the peso, liberalised foreign trade and investments, reduced government salary rolls and privatised state enterprises. These policies have led to strong growth in manufactured exports,

17 Skidmore, T., "The Politics of Economic Stabilisation in Post-War Latin America" in Mallot, J.E. (ed), *Authoritarianism and Corporatism in Latin America*, Pittsburgh: Pittsburgh University Press, 1977.

18 Kaufman, R.R., "Democratic and Authoritarian Responses to the Debt Issue: Argentina, Brazil and Mexico", *International Organization*, 39(3) Summer 1985.

particularly with the revival of the 'maquiladora plan'. The adjustment record of the de la Madrid government has won high praise and support from the U.S. Treasury and the large international banks. In turn Mexico has been rewarded with debt rescheduling terms that are, relative to those offered other debtors, uniquely favourable. While new funding has dried up for other debtors, including Brazil, Mexico continues to receive generous funding, much in the form of 'forced' lending. In 1986, when virtually no new money went to a large debtor (other than Nigeria) Mexico received US$6 billion; according to the IMF virtually all the US$3 billion transferred to Third World countries in the first half of 1987 went in bank lending to Mexico.

Nevertheless Mexico has been in almost uninterrupted crisis. This is partly but by no means exclusively due to the collapse of oil prices. In 1988, the government budgeted for an average oil price of US$16.00 per barrel equivalent to total anticipated revenue of US$7.4 billion; this price projection was later scaled down to US$12 a barrel, but by October average prices for Mexican crude had struck US$9, US$10 a barrel, subverting a peso exchange-rate freeze installed as part of a wage-price stabilisation program. Once again it became necessary to organise emergency assistance to Mexico, and there are renewed demands for renegotiation of the foreign debt. Sustained austerity has eroded support for the PRI and created difficulties for managed political liberalisation, as well as for the maintenance of previous incorporative practices, which were heavily dependent on patronage and corruption[19]. In 1982 heavy electoral fraud was required against the PAN, the main opposition party, to assure the PRI government the appearance of solidarity and authority required to deal with the policy consequences of the debt crisis. The 1988 presidential elections revealed a similar pattern of fraud in spite of this the PRI's share of the popular vote fell to 50.3%, compared to 69.7% and 69.3% in 1976 and 1982 respectively, and the poorest performance in the party's six decades in power. The major reason for this drastic erosion of the PRI's support is the 40% drop in average Mexican incomes that has occurred between 1982 and 1988 as a result of stringent adjustment policies.

The case of Mexico raises serious questions about the adequacy of conventional approaches to the debt crisis. If Mexico with its fidelity to the classic adjustment model and liberal patronage from international banks, continues to encounter difficulties, what about Third World debtors facing a more austere financial environment? Mexico is not the only negative example. The debt difficulties this year of Colombia, one of the least

19 Teichman, J., *Policy Making in Mexico: From Boom to Crisis*, Boston, Allen and Unwin, 1988.

indebted Latin American countries and one of the few current on its debt service, is being taken as evidence that 'even a conservatively run nation that has prudently managed its money may be unable to avoid the storm of the international debt crisis'[20]. In particular it puts into doubt the relevance of the so-called 'new consensus' on adjustment and debt reduction developed since 1985 and designed to combine debt-relief and growth[21]. This assumed a) domestic adjustment policies to ensure adequate savings and improve resource allocation and investment returns; b) sufficient demand in the world economy (i.e. the industrial economies) to absorb increases in the exports of debtor countries; and c) adequate resource inflows to support the adjustment process. While many debtor countries have carried out rigorous adjustment policies involving 'high political risk', p. ix., the other two conditions - expanded financial inflows and markets for Third World exports - have failed to materialise. On the contrary bank lending has dried up and debt-service has increased, leading to negative resource flows. Under pressure from the IMF and the World Bank debtor countries have aggressively expanded exports, only to encounter growing protectionism, a depreciating US dollar, and the worst commodity prices since the Depression. The international environment has deteriorated markedly for debtor nations. Measured against prices of manufactured exports, non-oil commodity prices fell 10%, in 1986 to the lowest level in 50 years[22]. Revenue losses for oil exporters from the price collapse in 1986 totalled US$17.3 billing for oil exporters in Latin America, equivalent to 30.8% of 1985 exports and 6.9% of GNP. With the exception of Brazil (which managed to increase imports at the cost of reduced trade surplus) 1986 marked the fifth year in succession of import cutbacks for Latin American countries; 1986 imports (with Brazil included) were only slightly more than 60% of import levels in 1980. This has stimulated domestic recession and inflation. GDP for the region as a whole grew at only 1.6% in 1986 and 0.4% in 1987; with Brazil excluded the figures fall to -1% and 0% respectively.

However, while the new democracies are anxious to avoid the conventional retrenchment policies of the IMF, it is not clear that they have found - or that they can negotiate - viable alternatives. Gracia's partial moratorium on debt repayment, 'Sarney's Cruzado Plan', and Alfonsin's 'Austral Plan' were all attempts to formulate an alternative strategy to recessionary IMF policies.

20 *Globe and Mail*, Toronto, March 22, 1988.
21 World Bank, op. cit. p. ix.
22 Ibid, p. xi.

The common element in these plans was a price freeze, liberalisation of imports, and expansion of consumer spending through wage increases or increases in the money supply. This had the effect of temporarily raising domestic output, curbing inflation and restoring growth. In particular Garcia's expansionary policies appeared to have been brilliantly successful, resulting in the highest growth rate (8.6%) in the region in 1986, a year of widespread recession. However, these policies also resulted in a consumption and import boom and in sharp deterioration of the external balance. In all three instances the collapse of the plan led to drastic rise in the inflation rate and sharp increases in official prices, seriously compromising the government's popular support soon after major election victories.

The failure of the Cruzado Plan helped to precipitate Sarney's unilateral moratorium on interest repayments on Brazil's debt in February 1987. The debt moratorium and the refusal to negotiate with the IMF was opposed by Brazilian businesses as well as the banks, and led to Dilson Funaro's dismissal and his replacement as Finance Minister by Mailson da Nobriega. While the latest debt agreement (June 1988)[23] has restored Brazil to financial respectability and made Nobriega the 'darling of Brazil's foreign bankers'[24], the fiscal and wage austerity incorporated in it has further polarised Brazilian politics, making doubtful Sarney's survival in the November 1989 elections. As important the strengthening of loan loss provisions by the major North American banks and reduction of their Third World portfolios has stiffened their resistance to similar 'blackmail' by Third World debtors.

Given this scenario, it is not surprising that the answer to the question posed by Roett,

> *How can (Latin American) governments deal with economic recession and simultaneously continue with the process of political democratisation?*

has tended to be pessimistic. Although the democratic experiments in Latin America have held and in some ways even matured, one is inclined to agree with O'Donnell that for many Latin American countries 'prospects for

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23 The June 1988 agreement with Brazil's creditors rescheduled US$63.6 billion in principal and interest due between 1987 and 1993 over 20 years with 8 years grace at reduced interest, and provided US$5.2 billion in new funding from the banks, with an additional US$1.4 billion to be provided by the IMF. Paris Club debts were to be rescheduled at a later date. In return Brazil was required to settle almost immediately arrears of US$1.35 billion to bring payments up to date.

24 *Globe and Mail*, 22 September 1988.

political democracy are not very favourable'. His gloomy prediction is that for much of Latin America:

> *the dice are probably loaded in favour of repeated iterations of shaky and relatively short-lived democracy and ever-uglier authoritarian rule*[25].

Kaufman is more optimistic, arguing with respect to Argentina and Brazil that with the discrediting of authoritarian military solutions;

> *civilian elites, now more than at any other time in the past several decades, may have some breathing space to find solutions of their own*[26].

The Situation in Africa

Turning to Africa two observations can be made to distinguish the region's debt situation from Latin America. The first is the rather different structure of Africa's debts. Most African debts are public sector debts owed to governments, export insurance agencies and multilateral agencies. An associated feature is the dominance of single-party debt (reflecting essentially colonial relationships) which as a rule gives rather less room for negotiating manoeuvre. The multilateral (IMF, World Bank) component of this debt has grown significantly in recent years. Individual African debts are diminutive compared to those of the larger Latin American debtors, but actually more burdensome to service given the region's weaker economic base. Only a few countries (Nigeria, Morocco, Côte d'Ivoire, and South Africa) owe substantial sums to commercial banks. These are also the only African countries listed among the 25 most Heavily Indebted Countries (HICs).

Their predominantly official nature means that most African debts are renegotiated within the Paris Club forum, where 'short-leash' arrangements continue to be the norm, rather than in bank committees.

As a rule very little new money or interest rate concessions have been extended with the Paris Club reschedulings. Multi-year Debt Rearrangement (MYRA), which has become increasingly the rule with the big Latin American lenders, is still rare in Africa, the Côte d'Ivoire debt agreement of 1986 being the only exception. This reflects the fact that, as a rule, African debt rearrangements have involved probably the least favourable terms and the most stringent conditionalities, a reflection in turn of the limited

25 O'Donnell G., Schmitter and Whitehead, L., *Transitions from Authoritarian Rule: Latin America*, Baltimore, Johns Hopkins University Press, 1987, pp. 14-15.

26 Robert R. Kaufman, 'Democratic and Authoritarian Responses to the Debt Issue: Argentina, Brazil, Mexico', *International Organization*, 39(3), 1985.

bargaining weight of African countries as a whole, given their relatively small debts and marginality in the international financial system. To this must be added the fact that although the OAU has recently become more active on debt issues, African nations have shown even less of an inclination to coordinate their debt strategies and the ability to effectively pressure creditors. Although the poorest African debtors will benefit from outright debt cancellation and from the recent Toronto proposals, most African debtors were excluded from the Baker Plan (only three of the 15 eligible debtors were from Africa), and as a rule African debtors have not benefitted from the recent innovations in debt-reduction or refunding[27]

Secondly, the economic performance of African debtors has been even more dismal than that of most Latin American debtors. After several years of severe adjustment Africa's internal economic situation and international trade position have regressed in every respect since 1980(table 1). Production of major cereals declined by 15% in 1987, principally in Eastern and Southern Africa, in spite of substantial increases in producer price incentives. Fall in coffee prices and depreciation of the US dollar led to a drop of 20%-45% in the external terms of trade of countries in Central and East Africa. Cocoa prices have fallen to their lowest levels in many years, leading the two principal producers in West Africa (Côte d'Ivoire and Ghana) to attempt to withhold supplies from the market. The collapse in oil prices, while providing much-needed relief to oil-importers, led to a revenue loss of US$8.3 billion to oil-exporters in Sub-Saharan Africa (SSA) in 1986, equivalent to 43.4% of 1985 exports and 9.9% of GNP.

Table 1 : Performance Indicators for Sub-Saharan Africa in Percentage

	1973-80	1980-85	1986*	1987*
Import Volume	7.5	-7.8	-3.8	-6.8
Export Volume	0.2	-3.7	-1.6	-3.6
Export Unit Value (US$)	17.3	-4.0	-18.2	8.3
Terms of Trade	4.7	-1.9	-23.2	0.5
Purchase Power of Exports	4.9	-5.5	-24.5	-3.1

* Estimated
Source: World Bank, *Annual Report 1988*, p. 23.

27 These include debt conversions, buy-backs, exchange schemes, securitization, and interest retiming. For a discussion of these and other financing instruments see IMF, *Annual Report 1988*, p. 46.

While drought, environmental disruption, and political conditions contributed to these results, much responsibility should also be placed on the IMF adjustment formula, involving large margins of currency depreciation, cuts in government expenditure, severe price adjustments, trade liberalisation, and so on. With even weaker backward linkages and less diversified export structure than the Latin American countries African economies tend to respond even less successfully to adjustment strategies stressing currency devaluation and export expansion. Except in the area of commodity exports, such policies have stimulated domestic recession and unemployment without curbing inflation[28]. Disastrous falls in commodity prices have occurred just as producers have committed substantial resources to primary export expansion, with rising surpluses as each adjusting country tries to capture a larger share of stagnant markets. The significantly differentiated rates of increase in export and food producer prices (53% and 22% respectively) have persuaded food farmers to move into export production and weakened the capacity for food self-sufficiency. As may be expected the failure of primary export promotion has had important fiscal consequences. The resources of marketing boards have been strained when world market prices fell steeply after committing themselves to large producer price increases. Decline in external terms of trade and large local currency demands from marketing boards have in turn forced a number of African countries back into deficit financing, rising inflation rates, and resumed pressure on exchange rates[29] Given this scenario, repayment of new adjustment lending in addition to existing loans has become a serious problem in a number of African countries particularly since IMF and World Bank loans cannot be re-scheduled[30].

What is the impact of the debt crisis on democratisation in Africa? It is difficult to say with any precision, firstly because in Africa as in Latin America there are various institutional, structural and other factors inhibiting

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28 Often increased inflation has accompanied sharp currency depreciations. According to the World Bank real interest rates in Africa were 69-79% of the levels in 1980-82. However, these figures hide massive exchange rate adjustments in individual countries: 77% in Uganda, 55% in Sao Tome, and 46% in Madagascar in 1987, and 99% in Ghana between 1983 and 1986. Currency auctions, the preferred option of the IMF, has led to large and sudden drops in exchange rates, with little margin for controlled depreciation. Zambia abandoned the auction and revalued the *kwacha* in 1986, and the Central Bank of Nigeria has been forced to intervene to prevent the *naira* from sinking too low on the auction.

29 World Bank, *Annual Report, 1988*, Washington D.C., World Bank, 1988, p. 87.

30 Sierra Leone, Zambia, Liberia and the Sudan are among 12 countries so far disqualified from further IMF funding for failing to meet payments. In Africa the side-effects of adjustment include further depletion of rainforests from the pressure to expand primary exports, and de-industrialisation due to the emphasis on 'comparative advantage'. An ironic result since domestic economic integration and structural diversification were often the main reasons for contracting debt in the first place.

democracy, and (again as in Latin America) the democratic record before the debt crisis was, to say the least, indifferent; but secondly because Africa has not been involved in a democratising trend similar to contemporary Latin America. In addition the institutional situation into which the debt crisis is being projected is substantially different (a less polarised social structure; a much smaller national bourgeoisie, with less developed roots in the domestic productive structure and diversified links with international capital; and a less professionalised and ideologically 'set' armed forces, to name a few obvious differences). Also support for and opposition to stabilisation programs have not taken similar organized or institutional form or necessarily expressed the same alliances, although as in Latin America unions, white collar workers and small businesses have been prominent in their opposition. Less space also exists for institutional actors and special interests in Africa to make their imprint on adjustment negotiation processes, given the weak negotiating position of African governments *vis-a-vis* external interests, the degree of dominance of the local economic bureaucracy, and weak influence of local business. If a domestic interest could be identified to support current adjustment policies it would probably be the primary export sectors, particularly rural agricultural producers - not normally an articulate or influential political interest, in spite of its crucial position in the economy. By shifting economic power in favour of this sector (which is still dominated by small producers) adjustment programs could, if sustained, redefine the balance of power in African society.

What we do know for certain is that elected (and in general civilian) governments have been reluctant to initiate stabilization programs. Sometimes it has necessitated a military overthrow to commence a program (Ghana December 1981; Nigeria December 1983, possibly Guinea 1985). At least one elected government has been overthrown directly as a result of the adoption of an IMF program (Ghana 1972) and so has at least one military regime (Sudan 1985). A promising experiment in 'popular democracy' in Ghana has come to an abrupt end after the adoption of a stabilization program in 1983. Military coups, food riots in Zambia and Tunisia, price riots in Khartoum - no wonder adjustment austerity is complicating political survival for the few relatively open (if not necessarily 'democratic') regimes remaining in Africa.

Debt and Democratic Practice

So far we have discussed how debt affects the *external conditions* of democracy in Africa and Latin America. However, debt-reform also bears specific political relations and notions of political practice that profoundly affect the possibility of developing democratic relations. The prevailing ideological framework of debt-reform is monetarism. Monetarism is philosophically anti-democratic because philosophically anti-political. As a theoretical model it typically conceives of 'market' an 'economy' in abstraction from their social and political determinations, and regards accumulation processes as capable of being rationalized independently of the class struggle. In other words, monetarism has no conception of political limits. Its basic incomprehension toward questions of politics has been demonstrated again and again in the behaviour of the IMF, the Chilean 'Chicago School', etc. Complex issues of economic reform strike monetarists as exceedingly obvious, given the simplicity of their assumptions. In the mature bourgeois democracy etatism leads to economic and political polarization; for fragile democracies like those in Latin America and Africa its political effects may prove terminal. In these countries the ideal political carapace of monetarism is the authoritarian alliance of technocrats and the military. Secondly, the fact that monetarist solutions are essentially being dictated from abroad (the IMF, international banks, Western governments) exacerbates this lack of political sensitivity. This limits the extent to which domestic political forces and democratic constituencies can shape reform processes. Simply, it leads to a situation where those dictating economic policy do not have to bear responsibility for its political management or for its political consequences. Different countries and regimes - depending on the size and structure of their debts, their geopolitical and economic significance, the skill and sophistication of their negotiators and the size and degree of self-confidence of their national bourgeoisies - have different margins for resisting or modifying the content of these foreign pressures. So far, however, the evidence of capacity for effective resistance has not been encouraging, even for the most powerful debtors.

The essence of bourgeois democratic practice lies in its mode of integration and separation of the political and economic instances, in other words in its ability to disarticulate the economic and political levels of dominance and thus subject economic reform to political limits. While - under conditions of capitalist democracy - this may prevent the formulation of adequate responses to problems of accumulation on the part of the state, at the same time 'by giving determinacy to the class struggle it deters the emergence of extreme political conditions'[31] What we have in debt-induced reform on the other hand is the 'unalloyed rule' of finance capital.

A proper relationship between the economic and the political in the process of economic reform is not possible under the dictatorship of foreign banks, that is, unless we can nationalise the terrain of struggle over

31 Hutchful, E., "The Crisis of the New International Division of Labour; authoritarianism, and the Transition to Free Market Economies in Africa, *Africa Development*, xii, 2, 1987, p. 41.

economic reform and thus create the national autonomy and space necessary to deal with economic issues politically. This would not be a sufficient step for democracy, but it would be a first and crucial step.

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