Preston High School Geography Department

LIFE AND DEBT

'Primer'

This film focuses on Jamaica and is a prime example of the complexities of economic globalization on the world's developing countries. This searing film dissects the "mechanism of debt" that is destroying local agriculture and industry in Third World countries while substituting them with sweat-shops and cheap imports.

BACKGROUND INFORMATION

Two international financial institutions wield enormous power over the lives of tens of millions of people around the world. They function tirelessly to encourage" reforms," so that less-developed countries can get their economies in order. From Russia to Thailand to Bolivia to Chile to Haiti, the International Monetary Fund and World Bank offer loans of billions of dollars, provided that the recipient nations adhere to strict "structural adjustment" programs. These programs include:

1. imposing earning limits on foreign investment,
2. devaluation of local currency to increase exports,
3. suppressing wages,
4. cutting social services such as health care and education,
5. keeping the state out of many potentially profitable endeavors.
6. commercial banks take their cue from IMF/World Bank approval: Governments who won't follow IMF/World Bank prescriptions get cut off from international commercial lending as well

With the collapse of the Eastern bloc, the free-market economy is now seen as the only viable economic system. Yet, within this system, much of the Third World is not receiving its share of global resources -- it contributes a great deal more than it receives.

All of these people's lives operate as part of an economic order in which their labor benefits foreign interests more than their own or their country's. This order is enforced by the IMF, the World Bank, U.S. AID and international trade agreements. Under the guise of providing developmental support to Third World countries, these institutions actually operate to control the economies and, in many cases, the political systems of these nations, crippling their efforts toward self-reliance.

Austerity Measures and Structural Adjustment

Jamaica -- like many other developing countries -- attempted to build its economy, after 400 years of colonization, on policies of self-sufficiency and independence. Due to a variety of external and internal pressures, it was unable to do so without foreign bank loans. Funds obtained through arrangements with the International Monetary Fund required ***austerity measures*** that proved to be anathema to progressive reforms. At present, Jamaica, along with many Third World countries, has built up an astronomical external debt that must be paid in U.S. dollars. In 1991, 8 billion Jamaican dollars were used to buy the foreign exchange (640 million U.S. dollars) needed to service the debt. In 1992, as a result of **"structural adjustment"**

policies mandated by the IMF, the Jamaican dollar was devalued and 18 billion Jamaican dollars were then needed to service the loan.

i) Austerity Measures

- Consequently, all government spending on education, health, social welfare, etc., has been cut by over 50 percent;
- great numbers of civil servants have been dismissed;
- import regulations have been eliminated.
- According to the World Bank, of the total money lent to Jamaica, less than 10 percent actually stays within the country. The rest is returned to the donor countries, to the perpetual detriment of the small nation.
- While Jamaica is seen to be on the path of "success," according to public IMF evaluation, statistics of wealth distribution cite Jamaica as having nearly the worst internal distribution of wealth of any country on the globe, second only to South Africa.

Why?
In order for the government to service this debt and meet its interest payments the limited government programs and expenditures have to be cut to meet interest payments. They are a requirement of the IMF and World Bank before loans are approved

ii) Structural Adjustment Programs (SAPS)

The country is paying out increasingly more than it receives in total financial resources, and if benchmark conditionalities are not met, the structural adjustment program is made more stringent with each re negotiation.

To improve balance of payments the following adjustments are prescribed:

- devaluation (which raises the cost of foreign exchange)
- high interest rates (which raise the cost of credit),
- wage guidelines (which effectively reduce the price of local labor)

Why?
According to the IMF assumptions, the combination of increased interest rates and cutbacks in government spending will shift resources from domestic consumption to private investment. It is further assumed that keeping the price of labor down will be an incentive for increasing employment and production. Increased unemployment, sweeping corruption, higher illiteracy, increased violence, prohibitive food costs, dilapidated hospitals, increased disparity between rich and poor characterize only part of the present day economic crisis.