COMMENTS ON

"External Debt Problems and the Principle of Solidarity: The Cuban Case" by Alberto Martínez-Piedra And Lorenzo L. Pérez

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In their paper "External Debt Problems and the Principle of Solidarity: The Cuban Case," Alberto Martínez-Piedra and Lorenzo Pérez have given a thorough account of the historical process of the debt of less developed countries (LDCs) and the present situation. At the same time, the authors try to frame the possible solution of the LDCs external debt on the basis of the principle of solidarity. It is to their ethical approach that I am going to direct my comments.

There is no doubt that the debt problem has deep ethical implications, but I do believe that the solidarity approach adds to the confusion instead of providing a needed solution. In that sense, I do think that it is a mistake to believe that the debt is a problem for the LDCs when the truth is that at the end it was the international financial system the one that at least for a time was really threatened, and with it the industrial world. Then, my main contention is that the solution of the debt problem should not come out of compassion of the industrial world for the well being of the LDCs, but on account of the correct understanding of the nature of the problem. In that sense, we should acknowledge that ethical questions not always imply an alternative between ethical and non-ethical solutions. In many instances, the real issue is which ethical principles should be applied. It is in this respect that I think that the Martinez-Piedra and Pérez paper, when trying to apply the so-called principle of solidarity, really misses this point.

There is no ethical problem which could be addressed without due regard to rights and responsibility. It is in this area where major differences could arise notably when we try to apply the principle of solidarity. Allow me to say, then, that such principle is based on the assumption that there is someone in a privileged position, with respect to another, and for that very reason has a moral duty to the latter. But can we expect that international financial markets operate under that assumption? What would be the meaning of risks? I would say, then, that solidarity is the contradiction of the market economy.

Now, we have entered the realm of ideology and I dare to say that the so-called principle of solidarity implies the acceptance of the Marxist view according to which the rich are the exploiters of the poor, and that a similar situation arises in the international field, as explained by Lenin in his "Imperialism: The Last Stage of Capitalism." But if we accept this approach, no international lending should take place since in fact what is challenged is precisely the property rights of the lender. If, on the other hand, we recognize the property rights of the lender, what are the implications of solidarity?

The problem is even more complicated, because the lender in this particular case is an institution, whose capital belongs to the stockholders, and the loaned money to the depositors. Do the banks have the right—out of the principle of solidarity—to relinquish the rights of collecting moneys owed, at the expense of the stockholders and the depositors? I would say that the authors would never accept that proposition, but in fact to some extent it is implied in their approach, and the quotations of the Pope.

But there is another relevant question. Why did the banks loan money to the LDCs when they knew, or should have known, that those countries and their governments were unwilling or unable to repay the debt? The origin of the debt problem was the quadrupling of the oil prices. I do think that out of the solidarity principle, the industrial countries, through the IMF, decided to help the LDCs to "finance" the oil bill. This decision took form in the so called "Oil Facility" created by the IMF in 1974 and extended a year later. This was the basis of the so called recycling process, according to which the international banks loaned the surplus petrodollars to the LDCs. Obviously the impact of this expanding bubble was to produce another increase in the price of oil in 1979. The decision to finance the oil price increases was based on the wrong assumption: that the demand for oil was completely inelastic, because there was not any other energy substitute available. The fact was the other way around. It was the availability of financing that permitted the price of oil to appear to have no ceiling. This was the prevailing wisdom which determined the evolution of the LDC external debt from 1973 onwards.

In 1979, however, there was another factor which determined a further increase in the debt as well as the potential bankruptcy of the international financial system. That was the decision of the president of the U.S. Federal Reserve System, Mr. Volker, to raise interest rates in order to stem the United States inflation. When the prime rate skyrocketed to close to 23 percent on account of this "wise" decision, the problem of the international debt worsened. From then on, it was no longer the problem of the debtor countries but of the international banking system, and for that very reason of the industrial countries as a whole.

Even though the problem of the debt may be perceived as a conflict of interest between the debtor countries and the international banks, there is another factor which is affecting the whole situation and it is necessary to take into account. On the one hand, the level of international interest rates which result form the expansion of government expenditures in the industrial countries and, on the other, the protectionist policies of those countries. In this respect it should be remembered the collapse of the international payments system in 1932, as a result of the U.S. Smoot-Hawley Tariff Act, which hindered all possibilities of European countries to pay their debt to the United States. In that sense the words of the economist Seligman are still valid: "It is not they who do not want to pay, we are the ones who do not want to collect the debts."

Hence it is obvious that the plans to solve the problem of the debt, for example the recent bailout of the Mexican economy, has not come out of compassion, but of enlightened self interest. But it is important that a new approach should be followed with respect to the recurrent banking crisis, and try to avoid to indulge in practices that finally end up with a bubble. In that sense, it should be now evident that such crisis rather than resulting from the moral hazard of the bankers are caused by "moral hazard" involving the welfare expenditures of governments acting on the basis of the principle of solidarity.

Even though I have not touched upon the Cuban external debt, there is no doubt that the major considerations which I have explained above are, and should be, applicable to the Cuban case. I am sure that the possibility of resolution of the Cuban external debt problem will not come about as a result of compassion and solidarity. The solution, if there is any, will come about through the wisdom of the Cuban government and the international creditors to find their common interests.