

The Debt Boomerang

How Third World Debt Harms Us All

Susan George



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About the Transnational Institute (TNI)

The Transnational Institute was founded in 1973–4. Its brief is to 'address the fundamental disparities between the rich and poor peoples and nations of the world, investigate their causes and develop alternatives for their remedy'. TNI is decentralised, with headquarters in Amsterdam and Fellows living and working in many countries on several continents. TNI Fellows aspire to be 'public scholars' or 'scholar-activists', carrying out research of the highest calibre and presenting it in formats accessible and relevant to a broad audience. TNI Fellows participate in a variety of public or media events and popular movements. Because Institute Fellows do not take a purely academic approach to their subjects, TNI is not just another research institute but an important intellectual resource for people throughout the world who seek positive social and political change.

Funding for the Institute's work has come from a wide range of sources including private foundations, European public development cooperation agencies, churches, non-governmental organisations, trade unions and individual donors. TNI Directors and Fellows do not receive salaries but rather grants to encourage intellectual work they could not otherwise undertake. Larger projects often call upon scholar-associates outside the Fellowship itself. Fellows meetings – designed as festivals of ideas – bring TNI Fellows and guests together twice yearly in the Amsterdam centre, where conferences and symposia on a variety of topics are also held throughout the year.

As of mid-1991, the Director of TNI is Dan Smith (UK citizen and resident); Susan George (US citizen, French resident) and Pedro Vilanova (Spanish citizen and resident) serve as Associate Directors. The Executive Secretary, resident in Amsterdam, is Laurian Zwart.

For further information concerning the Institute's activities and programme, please contact Laurian Zwart, Executive Secretary, TNI, Paulus Potterstraat 20, 1071 DA, Amsterdam, Netherlands; tel. (31-20) 662 66 08 or fax (31-20) 675 71 76.

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Abbreviations

CGCED	Caribbean Groups for Cooperation in Economic Development
COSV	Comitato de Coordinamento delle Organizzazioni per il Servizio Volontario
DEA	Drug Enforcement Administration
HIC	Highly Indebted Country
ICERC	Interagency Exposure Review Committee
ILO	International Labour Organisation
IPCC	Intergovernmental Panel on Climatic Change
GATT	General Agreement on Tariffs and Trade
LDC	Less Developed Country
MILIC	Moderately Indebted Low-Income Country
MIMIC	Moderately Indebted Middle-Income Country
NATO	North Atlantic Treaty Organisation
NIC	Newly Industrialised Country
NIDA	National Institute of Drug Abuse (USA)
ODA	Overseas Development Aid
OECD	Organisation for Economic Cooperation and Development
OFPRA	French Office for the Protection of Refugees and Stateless Persons
OPEC	Organisation of Petroleum Exporting Countries
SILIC	Severely Indebted Low-Income Country
SIMIC	Severely Indebted Middle-Income Country
SOPEMI	OECD Permanent Observation System of Migrations
UNEP	United Nations Environmental Programme
USAID	United States Agency for International Development

Highlights

The Debt Boomerang shows how:

- **Deforestation** in the South – a major contributor to global warming – is directly linked to the debt crisis. A country's debt burden strongly correlates with both the pace and the extent of its tropical forest destruction. Bio-diversity, the source of our future foods and medicines, is disappearing along with the forests.
- **Cocaine** will continue to flood Northern markets – with all its attendant social problems – so long as deeply indebted Latin American countries are dependent on drug dollars for survival and while tens of thousands of people displaced by the International Monetary Fund's economic austerity programmes cannot find a livelihood in the legal economy.
- **You are paying** enormous disguised subsidies to commercial banks, which have taken at least US\$73 billion from the public purse since 1987, while receiving huge payments from the third world. Yet the debtors have received almost no relief and in 1991 were 61 per cent more in debt than they were in 1982.
- **Jobs** have been lost in Northern industries by the hundreds of thousands, and farms have failed because the debtor countries can no longer purchase Northern products and must send every spare dollar to the banks.
- **Immigration**, legal or illegal, can only swell so long as millions seek to escape the dire economic consequences of austerity in their own countries. Solving the debt crisis is the vital initial step to making their lives worth living at home.
- **Conflict and war**, with the ever-present danger of spillovers into our own daily lives, are the constant companions of debt, now doubtless the single largest contributing factor to global instability.

The Debt Boomerang also points the way towards the future we must build. Northern citizens can work together, and with their counterparts in the South, to force governments and international agencies to end the havoc wreaked everywhere by the debt crisis. It belongs at the top of the political agenda.

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We are much indebted to the Comitato di Coordinamento delle Organizzazioni per il Servizio Volontario (COSV) of Milan and Rome* and to the General Directorate for Development Cooperation of the Italian Ministry of Foreign Affairs* for providing us with the means to complement our research and to undertake and strengthen outreach activities centred on the conclusions and recommendations of this book. Thanks to the generosity of COSV and Italy's Development Cooperation programme, TNI can seek endorsements, organise events and generally press for the adoption of these recommendations. TNI wishes to thank especially Cinzia Giudici and Cristiana Cometto of COSV who share the Institute's view that scholarship should serve to advance the debate on North-South issues.

We would also like to thank the Max and Anna Levinson Foundation* whose support has provided us with the welcome and unprecedented opportunity to undertake outreach activities in the United States as well.

Finally, we can never adequately express – much less repay – our debt to the Rubin Foundation (New York).* Its founder, the late Samuel Rubin, was a guiding force in the establishment of TNI in 1973. Since that time, the Foundation has consistently renewed its general support for our work.

* The views presented in this book do not necessarily reflect those of the project's donors, all of whom have respected TNI's intellectual freedom and independence.

We hope that these donors, and other TNI supporters who help to finance the whole range of the Institute's activities, will find their confidence justified by *The Debt Boomerang* project. We hope in particular that through this book and its associated campaign, TNI may contribute to genuine change in official debt policy, benefiting the vast majority of citizens in both the North and the South.

From the *Notebooks* of Leonardo da Vinci:

That shall be brought forth out of the dark and obscure caves, which will put the whole human race in great anxiety, peril and death. To many that seek them, after many sorrows they will give delight, and to those who are not in their company, death with want and misfortune. This will lead to the commission of endless crimes; this will increase and persuade bad men to assassinations, robberies and enslavement, and by reason of it each will be suspicious of his partner. This will deprive cities of their happy condition; this will take away the lives of many; this will make men torment one another ... For this the vast forests will be devastated of their trees; for this endless animals will lose their lives.

The Prophecies, 'Of metals'

Introduction

This book examines six major 'Debt Connections'; six ways in which the third world 'Debt Boomerang' strikes the North as it flies back from the South:

- Environmental Destruction
- Drugs
- Costs to Taxpayers
- Lost Jobs and Markets
- Immigration Pressures
- Heightened Conflict and War

The Debt Boomerang presents the findings of a research project undertaken by the Transnational Institute (TNI), Amsterdam, working in close collaboration with its sister institution, the Institute for Policy Studies (IPS) in Washington DC. We who have contributed to this book are not newcomers to third world debt issues. For the better part of a decade, TNI/IPS Fellows and associates have carried out research, written books, articles and study guides; contributed to network television films and classroom videos; spoken, in person and on radio, to audiences on six continents, and participated in countless conferences and colloquia on the debt crisis.

Indeed, considering our means, we may well have devoted proportionally more human resources to this issue than any comparable group of people, even including the official debt managers of the World Bank and the International Monetary Fund. Although justifiably proud of our work, it has to be said that we are also frustrated and worried. Too little has changed. For a decade, human misery and ecological devastation have worsened throughout the indebted world with each passing year, exacerbating North-South tensions.

If the goals of official debt managers were to squeeze the debtors dry, to transfer enormous resources from South to North and to wage undeclared war on the poor continents and their people, then their policies have been an unqualified success. If, however, their strategies were intended – as these institutions always claim – to promote development beneficial to all members of society, to preserve

the planet's unique environment and gradually to reduce the debt burden itself, then their failure is easily demonstrated.

One obvious aspect of this failure, or success, depending on one's point of view, is financial. From the onset of the debt crisis in 1982 through 1990 (as of this writing the last year for which complete figures are available) each and every month, for 108 months, debtor countries of the South remitted to their creditors in the North an average six billion five hundred million dollars (US\$6,500,000,000) in interest payments alone. If payments of principal are included in the tally, then each of the 108 months from January 1982 through December 1990 witnessed payments from debtors to creditors averaging twelve billion four hundred and fifty million dollars (\$12,450,000,000).

What happened to this money, remitted to private banks, state creditors and international public institutions, thanks to the toil and tears of hundreds of millions? Theoretically, the third world's interest payments alone could have provided every man, woman and child in North America and Europe with over US\$1000 or 500 pounds sterling during this nine year period.* Practically speaking, of course, ordinary citizens in the North obtained no such advantages, in spite of the unprecedented financial haemorrhage flowing from the less developed to the wealthy countries. On the contrary, these Northern citizens paid, as we intend to show, huge and varied penalties to compensate for the foolish lending policies of their own banks and governments.

Another aspect of the success/failure story has been the opportunity debt has provided to intervene in the management of dozens of debtors' economies. The International Monetary Fund and the World Bank, acting on behalf of the creditor countries which are their major stockholders, have undertaken this task. Their job is simple: to make sure the debt is serviced. Thus a chief goal of their economic management must be the accumulation of enough hard currency to ensure levels of payments like those just cited. Since the average citizen

* Almost all debt figures in this study are taken directly or derived from OECD, *Financing and External Debt of Developing Countries: 1989 or 1990 Survey*, Organisation for Economic Cooperation and Development, Paris, 1990 or 1991. We generally use this source in preference to the World Bank's *Debt Tables* because OECD figures include short-term debt – for many countries a fairly large proportion of total borrowings – whereas the World Bank's do not. The above calculations are based on total interest payments of US\$706 billion for the nine calendar years from 1982–90, divided by 108 months or by 600 million Northern citizens. If payments of principal (amortisation) of long-term debt are included, total payback from South to North for the same period was \$1,345,300,000,000. In that case, each of these 600 million Northern citizens would have theoretically received an average \$2242.

of a low-income debtor country is 55 times poorer, and the average citizen of a middle-income debtor country is 9 times poorer than the average citizen of an OECD creditor country, this process has been justifiably likened to extracting blood from a stone.*

To accumulate hard currency one must increase exports and reduce government outlays: we will not elaborate here on the specific measures which are supposed to allow governments to 'earn more and spend less'. The problem for the debtor country is that it must remit most or all of its debt service before it is free to engage in any other pursuits. Most debtor governments have for years cooperated, and forced their peoples to cooperate, with the draconian policies of the IMF and the World Bank. Much good it has done them.** A decade has passed since the third world debt crisis first erupted, yet in spite of harsh measures faithfully applied, this crisis is today more intractable than ever.

At the behest of the Bank and the Fund, debtor countries have deprived their people – particularly the poorest among them – of basic necessities in order to provide the private banks and the public agencies of the rich countries with the equivalent of six Marshall Plans. This unprecedented financial assistance to the rich from the poor may be startling but it is nonetheless arithmetically true.

According to the OECD, between 1982 and 1990, total resource flows to developing countries amounted to \$927 billion. This sum includes the OECD categories of Official Development Finance, Export Credits and Private Flows – in other words, all official bilateral and multilateral aid, grants by private charities, trade credits plus direct private investment and bank loans. Much of this inflow was not in the form of grants but was rather new debt, on which dividends or interest will naturally come due in the future.

During the same 1982–90 period, developing countries remitted *in debt service alone* \$1345 billion (interest and principal) to the creditor countries. For a true picture of resource flows, one would have to add many other South-to-North outflows such as royalties, dividends, repatriated profits, underpaid raw materials and the like. The income–outflow difference between \$1345 and \$927 billion is thus a much understated \$418 billion in the rich countries' favour. For purposes of comparison, the US Marshall Plan transferred \$14

* According to World Bank statistics, the average GNP per capita (1988 dollars) for Low Income countries is \$320, for Middle Income Countries \$1930, for OECD countries \$17,470.

** For greater detail on these measures and their human costs, see Susan George, *A Fate Worse than Debt*, Penguin (UK and Commonwealth) and Grove Press (US) 1988.

billion 1948 dollars to war-ravaged Europe, about \$70 billion in 1991 dollars. Thus in the eight years from 1982–90 the poor have financed six Marshall Plans for the rich through debt service alone.

Have these extraordinary outflows at least served to reduce the absolute size of the debt burden? Unfortunately not: in spite of total debt service, including amortisation, of more than 1.3 trillion dollars from 1982–90; the debtor countries as a group began the 1990s *fully 61 per cent more in debt than they were in 1982*. Sub-Saharan Africa's debt increased by 113 per cent during this period; the debt burden of the very poorest – the so-called 'LLDCs' or 'least developed' countries – was up by 110 per cent.

Clearly, the economic policies imposed on debtors by the major multilateral agencies – policies packaged under the general heading of 'structural adjustment' – have cured nothing at all. They have, rather, caused untold human suffering and widespread environmental destruction while simultaneously emptying debtor countries of their resources; rendering them each year less able to service their debts, let alone invest in economic and human recovery. The World Bank and the IMF structural adjusters have now had a generous period to impose their plans and cannot complain that their measures have not been given enough time to work. Had these public debt-management officials been corporate executives, with so little to show for themselves, their shareholders would have doubtless sacked them long ago for incompetence. Had they been politicians, they would have been trounced at election time and sent back to where they came from.

Corporate managers and local or national public office-holders can be dismissed for poor performance. No such accountability applies to the international bureaucrats acting on behalf of the creditor governments. The international debt managers need never submit to the judgement of their victims. They answer only to their own equally unaccountable superiors, and, at the top of the bureaucratic tree, to a Board of Governors reflecting the majority voting strength of the richest creditor countries. These lavishly compensated international civil 'servants' are consequently still to be found in Washington and throughout the third world, living exceedingly well.*

* In early 1991, the author was seated on an airplane next to a supervisor of an international construction firm. An old Africa hand, he was on his way to the desperately poor African country Guinea (life expectancy 43 years; illiteracy 72 per cent, according to World Bank figures). There his company was constructing the country's largest swimming pool to enhance the charms of the villa occupied by the World Bank mission chief. According to this informant, the Bank – that is, you, me and the Bank's bondholders – was footing the bill. As of 1 August 1991, salaries for the heads of the World Bank and the IMF were raised to \$285,000 per annum. The pay ceiling for their top staff is \$190,000.

The international debt managers, whose requirements include higher levels of exports and radical cutbacks in government spending, do not feel the effects of the massive unemployment, depressed wages and drastically reduced public services which quite naturally follow. The social dislocation they have encouraged has not even bought economic health – the debt managers would be hard pressed to point to a single third world success story. Economically, socially and ecologically speaking, ‘structural adjustment’ has been a disaster, but the Fund and the Bank are undeterred.

Their perseverance can be at least partly explained by the unequivocal encouragement they have received from certain quarters. The ultimate verdict on IMF and World Bank activities depends entirely on who serves on the jury. For corporations operating in debtor countries – both local and transnational – structural adjustment has reduced both wages and the power of unions, thus enhancing corporate profitability. For many international banks, debt service payments at unusually high interest rates in the early 1980s helped to fuel several years of record earnings. From the corporate or banking perspective, the World Bank and the IMF pass the test with flying colours.

Nor have third world elites much cause for complaint. They have weathered the ‘lost decade of the 1980s’ with relative ease and have sometimes profited handsomely from it. They too benefit from plummeting wages and their money is often in safe havens outside their own countries, in US dollars or Swiss francs. Each time the IMF requires a devaluation of the national currency to encourage exports, those whose holdings are in foreign currencies automatically become richer at home. And although public services may deteriorate or close down, rich people can afford private ones. Thus it is not surprising that third world governments have failed to unite and to demand debt reduction. Each debtor country sits down alone to negotiate, across the table from a united creditor front.

The debtors’ lack of unity ensures the draining of their economies and a continuing South-to-North resource flow on a scale far outstripping any the colonial period could command. The debtor governments have from time to time made mild remonstrances and called for debt relief but have never collectively confronted the creditors. Even if they suddenly tried to do so, the historic opportunity they might once have seized has passed: the banks are far less vulnerable to pressure than they were until 1987.

As a reward for docility, the creditors have allowed most debtor country elites to maintain their links to the world financial system, providing them with at least a trickle of fresh money and offering

them frequent opportunities to purchase local assets at bargain prices through so-called 'debt-for-equity swaps' or privatisation programmes. Third world debt should not, therefore, be seen as a straightforwardly 'national' problem. Different social classes in debtor countries have vastly divergent interests and are unequally affected. Although debt has visited unprecedented pain on the vast majority of third world people, the crisis is not necessarily a crisis for everyone.

While the topmost layers of third world societies remain largely insulated from debt distress, ordinary people in the South sacrifice to pay back loans they never asked for, or which they even fought against, and from which they derived no gain. Knowledge of their plight is by now fairly widespread in the developed, creditor countries, thanks to the efforts of thousands of concerned people patiently explaining the human and ecological consequences of the debt crisis in the third world.

Yet despite the best efforts of such people, pressures exerted by dozens of non-governmental organisations in both North and South have so far failed to alter basic debt-management policies. Although the Fund and the Bank now claim they seek to 'mitigate the social costs of adjustment', official response to the crisis advances at a calculated snail's pace, inching from one feeble and ineffective 'Plan' to the next, while leaving the status quo essentially untouched.

Until now, those in the North, including many TNI/IPS Fellows, who have tried to change the debt management strategies of their governments, the World Bank and the IMF, have rightly based their arguments on ethical and humanitarian grounds. The social and ecological disaster debt has brought upon people in the South, particularly the poorer among them, provides ample justification for this approach.

The impact of third world debt fallout in the North is much less well known – doubtless because the consequences of debt are far more serious and life-threatening in the South than in the North. Nonetheless, we believe it is vital to show how such a seemingly distant phenomenon in fact harms nearly everyone in the North. We view *The Debt Boomerang* as one way to bridge the information gap; to demonstrate that ordinary citizens of debtor and creditor countries have every interest in joining forces to demand an entirely new approach to third world debt. Although people in the South are far more grievously affected by debt than those in the North, in both cases, a tiny minority benefits while the overwhelming majority pays.

Rarely in human affairs can one show a linear, one-to-one causal link between events; the consequences of the debt crisis are no

exception. Thus nowhere do we claim that third world debt is the *only* cause of, say, increased illegal drug exports to the United States and Europe or of accelerated deforestation hastening the greenhouse effect. We do, on the other hand, try to show that debt is, at the very least, an aggravating factor in these negative trends. Thus we stress feedbacks more than linear connections and tend to see debt and its multiple consequences as mutually reinforcing. For example, debt-burdened Latin American governments become hooked on dollars from their coca producing regions. This severely dampens their incentive to encourage legal crops. Increased drug exports, in turn, escalate the costs of law enforcement and contribute to social breakdown in the North.

These harmful effects did not, so to speak, suddenly spring fully armed from the head, or the belly, of the World Bank. They result from a conscious set of policies aimed at promoting a particular kind of development. During the late 1960s and throughout the 1970s, borrowing financed an expensive, capital-intensive, energy-intensive, unsustainable development model favourable only to third world elites, Northern banks and transnational corporations. This model marginalised the majority which could not hope to partake of the fruits of a spurious 'growth' based on human exploitation and natural resource depletion.

Not surprisingly, massive overborrowing (encouraged by the creditors, welcomed by the borrower governments) coupled with high interest rates led to the debt crisis. This crisis in turn provided official debt managers in the 1980s and 1990s with a perfect lever, immediately used, to entrench the very development model which had caused the original problem. Relying on unbridled free market forces and export-led growth, they have devastated the unprotected – poorer, more vulnerable groups and the environment.

They are still doing it, and, quite simply, they have to be stopped.

We hope this book may show that while any standard of human decency or any ethical imperative demands a change in debt management, *so does enlightened self-interest*. Everyone outside the narrowest of elite circles has a stake in positive change. Perhaps if enough people in the North realise that the third world debt crisis is their crisis as well, they will insist on radically different policies. They will speak out and will seek to join with similar forces in the South.

We also hope that this book may help to promote a particular kind of change. Readers have a right to know at the outset that ours is a political, social and economic agenda. TNI seeks to promote, through its scholarship, an alternative approach to debt. It further seeks to

discredit a development model which has proven itself to be beyond reform and which, unchecked, will lead to future disasters as it has led to the present one.

We believe that genuine development must be based on three principles:

- popular participation in decision-making at every level
- social equity
- ecological prudence

Later on in these pages these principles will become more explicit. If *The Debt Boomerang* is successful, it will help to point the way towards this goal; it will become one tool for building bridges in the North between environmentalists, trade unionists, people concerned about drugs, activists for immigrants' rights, members of third world solidarity groups or non-governmental organisations (NGOs) and that broadest category of all – taxpayers. We hope that each of these constituencies will see the need to work together for alternative policies and, simultaneously, the need to work effectively with their counterparts in the South. All of us would benefit from a new approach to debt and development based on shared principles and shared interests.

Throughout the book we outline the necessary elements of an alternative debt strategy. We also make recommendations which we believe could lead to a development strategy based on, and guaranteed to uphold, the vital triad of popular participation, social equity, environmental prudence – in other words a model taking into account the real needs of people everywhere.

In 1991, the world witnessed a major war – some called it the first North–South war. Certainly it was partly about control over resources, about political control via debt, about the rights of all peoples to a homeland. Because of oil, because of the Israel-Palestine deadlock or the largest national minority of all without a country – the Kurds – the Middle East has never been typical of what we, following the conventional verbal shorthand, call the third world. Here, we will comment only in passing on the Gulf War, even though its effects may be felt for years to come. It is, however, well within our subject to note that Saddam Hussein saw the invasion of Kuwait as one way of wiping out his colossal debts owed both to that country and to the allies; and that George Bush granted massive debt forgiveness to an allied Arab nation like Egypt as a reward for staying on his side.

So long as the policies of the rich North represent a mixture of crude carrot-and-stick manoeuvres, coupled with basic contempt for the

South, its problems and its peoples, we can expect more lethal North-South tensions, more powerful boomerangs hurtling back at us, a further forced retreat of the rich countries into Fortress America and Fortress Europe. Or we can decide that it is time – high time – we began to live together on this improbable planet as *homo sapiens* a good deal more *sapiens*.

We need first to understand that we will be, in the end, far better off without demanding the South's annual pound of flesh. Then we need to recognise that this 'South' is rapidly approaching four-fifths of humanity which, in a positive or negative way, will necessarily make its presence felt. Finally, we must accept that none of us, from North or South, can do without the planet. If we learn none of these things, then the planet can, and may yet, decide to do without us.

* * *

Research and documentation for the *The Debt Boomerang* were undertaken by a team. The names of the scholars involved are to be found following the title page and at the heads of the chapters to which they contributed. I have, however, entirely reworked the material they supplied and have frequently added to it; thus final responsibility for the contents of this book is mine alone. People on the team should not be blamed for the uses to which I have put their work or for the conclusions I may have drawn from it: they may not agree with me. Dan Smith's chapter on conflict is the exception: he supplied a finished draft; I made only editorial or stylistic changes.

S.G.



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