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On Debt Cancellation

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DEBT – Killing Slowly & Surely

DEBT is necessarily the starting point in explaining the state of siege that grips the economies of most developing countries today. That's because the efforts by governments to pay their external debts, or at least calm the pressures exerted on them to make interest payments, are what have allowed officials of the International Monetary Fund (IMF) and the World Bank to take those countries' economic policies hostage. The remedies prescribed by these experts have only exacerbated the twin problems of debt and poverty.

Unfortunately, when decision makers, policy makers, legislators, economists, bankers, and sometimes even people like ourselves think about and talk about debt, they -- we -- forget that it is about people: individuals, families, and communities.

We forget that debt, that policy, has a human face: that cuts in education mean someone's child, most likely a daughter, will never receive an education. We forget that cuts in health spending mean that over 35,000 children a day die from curable and preventable diseases. We forget that cuts in food subsidies mean that millions more children die from malnutrition and starvation before the age of five. We forget that cuts in credit to farmers mean that the food security of entire countries has been decimated as more and more credit and emphasis is placed on cash crops like coffee, tea, cut flowers, tobacco, and cotton. And we forget that the promotion of the export oriented model of production condemns millions of 9 and 10 year old boys, teenage girls, and young women to working in Haitian, Indonesian, Salvadoran, and Pakistani sweatshops making toys for Disney, clothing for Wal Mart and the Gap, and sewing soccer balls.

All this because these countries have a crushing debt burden. All this because the world’s leaders can find $120 billion to bailout out bankers, investors, Wall Street firms, and international banks, but they have little or no money for debt cancellation, programs for poor children, health care for the poor and the elderly, environmental protection, or for education and affordable housing.

President Bush recently visited Africa, but he was kept far away from actual Africans. When former

U.S. president Bill Clinton went to Africa, he interacted a little more. In March 1998, while in South Africa, President Clinton said that upon his return from his African trip he would be looking into debt because everyone was talking to him about it. I believe what happened was that Mr. Clinton, in visiting African countries, meeting and talking to Africans, got a real glimpse of the impact of debt in ordinary people's lives. No matter how hard or long they work, debt is strangling them, crushing them, and debilitating them. President Clinton got to experience a reality which could never have been conveyed by a policy briefing, a newspaper story, or a TV documentary. As he danced with schoolchildren in Uganda, he might have been touched by the great level of hope and determination and the realization that they don't stand a chance of achieving their dreams in the current circumstances.

I am from Kenya, Uganda's neighbor to the East. If President Clinton had visited Kenya, he may very well have been dancing with children from my home village, Kanyarîrî , after all, in 1991 Clinton's Vice President, then Senator Gore, visited and wrote about the environmental work of the women of Kanyarîrî, including my mother and grandmother, in his book Earth in the Balance.

A few years ago, while I was in Kenya for a family visit, the front page of the Daily Nation, Kenya's leading English language daily newspaper, reported the death due to starvation of children and old people in Machakos District in Eastern Kenya. Kenya was experiencing a prolonged drought, and Machakos and other arid and semi arid parts of Eastern Kenya were experiencing famine and critical food shortages. The newspaper article quoted Kenya's president appealing for food aid to the region from the international community.

Several pages later, in the same newspaper, there was a story about tons of cotton rotting in Western Kenya as it sat unprocessed in storage facilities due to lack of transportation. I was struck by the irony of a nation that could not feed its most vulnerable, but was raising non food cash crops in order to earn foreign currency to service its debt.

Perhaps the answer is not as easy as Western Kenya growing maize, millet, beans, and cassava so that people in Eastern Kenya never starve to death. But perhaps it should be that easy. We know that structural adjustment programs have not worked in over 20 years in 90 plus countries, since poverty just continues to increase. And we know that the debt burden continues to crush the hopes and dreams of entire generations. We know that the more countries pay, the more they seem to owe. So perhaps Africa's march into the 21st century will not begin with hooking African villages to the Internet, as Mr. Clinton suggested in Uganda, but with the meeting of everyday needs food, water, health care, a clean environment, and basic education for all. The march to the 21st century must begin by thinking and providing the basics of life. That march to the future will only truly begin when the multilateral financial institutions and powerful countries like the U.S. and Japan get serious about debt cancellation. And that cancellation MUST be de-linked from structural adjustment requirements.

"I've called for a long time for the cancellation of the crippling debt which we have had to bear for so long... this is the new moral crusade: to have the debt cancelled, following the Biblical principle of Jubilee. Basically this principle says that everything belongs to God; all debts must be cancelled in the Jubilee year to give debtors a chance to make a new beginning." - Archbishop - Desmond Tutu

We do not believe debt cancellation to be a "magic bullet," but we acknowledge that no single step would go further toward accomplishing the goals of the 50 Years Is Enough Network than eliminating the enormous debts that have been heaped on Southern economies. The structural adjustment programs (SAPs) that today strangle over 90 countries are imposed by the IMF and World Bank precisely so that governments can accumulate hard currency to pay their debts. Agreeing to a SAP is usually the only option left for a government to insure the minimum financial flows needed to keep running. SAPs compel countries to cut social spending, restrict credit, open up their economies to foreigners, and orient their productive capacities to export agriculture, thus reducing food security and contributing to environmental degradation. SAPs also add substantial extra burdens to women, who already suffer disproportionately from poverty.

The massive debts that lead to the ceding of a country's economy to international bankers are those owed by developing countries to other countries (as a result of loans and aid programs), to private banks, and to the multilateral institutions themselves the World Bank, the IMF, and regional development banks. These debts have accumulated in most of the world over the last twenty or so years due to predatory lending practices by private banks; loans for huge infrastructure projects which were poorly conceived or executed; the oil crisis of the mid 1970s; the sudden and dramatic jump in interest rates at the end of the 1970s initiated by the U.S. Federal Reserve Board; and the massive amounts of loan money which disappeared into the pockets of dictators and other corrupt government officials.

Regardless of who has benefited from years of reckless lending and spending, it is entire countries and their citizenries, not government officials or bankers, who are held accountable for the loans. Well paid bankers in Washington prattle about the "moral hazard" of setting the precedent of letting debtors off the hook, with no acknowledgment of the system's essential corruption: the direct beneficiaries were mainly contractors in the North (for infrastructure loans) and autocrats in the South. Those the institutions choose to see as the "debtors" are the poor people of Africa, Asia, and Latin America who have had no share in any gains from the loans and had no part in the decision to take them in the first place.

Countries cannot file for bankruptcy protection; as long as they exist, their debts stay with them. In the world of international finance there is one inexhaustible resource, one player that can always be made to pay: the poor. A legal doctrine, odious debt, has been employed to exempt countries from debts incurred by a previous government which acted against the interest of the people and without their consent. But it has only been used in cases where a powerful country has had a clear stake in the outcome. In the last few months this idea has been debated again with regard to Iraq. Iraq is in fact a very good example of a country with huge debts that its people should not be forced to pay. What is unjust is not the notion of canceling that debt, but that countries in even worse condition, endured for decades, with debt burdens as clearly odious as Iraq's, have been condemned to a spiral of poverty, disease, and death. Perhaps the case of Iraq, if the principle of odiousness is applied, will set a valuable precedent; it is just as likely, however, that it will be fashioned as an exception on some technical grounds, when in fact what is exceptions is the U.S. government's tremendous need for it to recover rapidly.

Much more needs to be done. Many countries still spend more on debt servicing than on healthcare and education. The result is needless suffering -- for example, many countries, especially in Africa, divert desperately needed funds to well-endowed institutions like the World Bank and IMF instead of devoting the funds to combating HIV/AIDS and other health crises on the continent. The UN estimates it would take $10 billion annually to successfully fight HIV/AIDS in Africa, the continent collectively sends $15 billion annually to wealthy creditors including G8 governments like the U.S. and Japan.

Until more definitive steps are taken to end the debt crisis in the most impoverished countries, creditor governments and financial institutions, will continue to grapple with the problems caused by debt and millions will continue to die each year. There have been many commitments made by governments, especially G8 governments including Japan, but it is and has not been enough. Moreover, the debt crisis seems to have fallen off the agenda of creditors, at the G8 summits and at the annual and semi-annual meetings of the World Bank and IMF. It is time that creditors, bilateral and multilateral creditors, match their rhetoric with action and real money, as a first, critical and necessary step towards resolving the debt crisis.

A few examples of what this accountancy horror has resulted in:

● According to the All-Africa Conference of Churches, "Every child in Africa is born with a financial burden which a lifetime's work cannot repay. The debt is a new form of slavery as vicious as the slave trade."

● Between 1980 and 1992, a period during which nearly every country in Sub Saharan Africa labored under structural adjustment policies much of the time, that region saw its debt burden triple. For the developing countries as a whole, it doubled.

● The flow of money between the North and South was reversed some time ago; developing countries now pay more in debt servicing than they take in through the combination of trade and aid. Between 1982 and 1990, the South transferred a net $418 billion to the North. Between 1987 and

1995 the IMF received $4 billion more in debt repayments from the most indebted and impoverished countries than it has provided.

● Africa spends four times more on debt interest payments than on health care. Recent figures for Uganda showed that for every $3 the government spent on health, it paid $17 in debt service, most of which went to multilateral lending institutions.

● In Mexico, the austerity measures implemented beginning in 1982 caused the following effects before the "peso crisis" of late 1994: health expenditures dropped from 4.7% of public spending to 2.7%; the real minimum wage dropped 60%; the cost of basic goods rose at three times the rate of wages; and the portion of the population living in official poverty increased from 13% to 24%.

● In the early 1990s, 75% of the U.S.'s Agency for International Development (USAID) budget for Nicaragua went toward paying interest on the national debt and improving balance of trade figures. Nicaragua took in $631 million in "liquid resources" in 1994; over 70% of that money went toward paying the interest on the country's foreign debt.

● Between 1990 and 1993 the government of Zambia spent $37 million on primary school education. Over the same period, it spent $1.3 billion on debt repayments. Repayments to the IMF alone were equivalent to ten times government spending on primary education.

● Of $2.9 billion provided by the World Bank's soft loan arm, the International Development Association (IDA), to the world's poorest countries, fully two thirds ($1.9 billion) was spent on repaying past World Bank loans. A good bit of the remaining third went to the IMF.

● The external debt burden of sub-Saharan Africa has increased by nearly 400% since 1980, when the IMF and World Bank began imposing their "structural adjustment programs."

● External debt per capita for sub-Saharan Africa (not including South Africa) is $365, while GNP per capita is just $308.

● The external debt for the region (again excluding South Africa), at some $203 billion in 1996, represents 313% of the annual value of its exports.

● Debt servicing for sub-Saharan Africa amounts to about 20% of its export income.

● In 1996, sub-Saharan Africa (minus South Africa) paid $2.5 billion more in debt servicing than it got in new long-term loans and credits.

The 50 Years Is Enough Network calls for an end to an obscene system that considers interest payments sacrosanct while the most minimal quality of life for citizens of indebted countries becomes a luxury to be splurged on if the debts have been paid. When Charles Dickens exposed the plight of the children of imprisoned debtors in London, the society reacted in horror and quickly reformed the system. Today entire societies are imprisoned, starved and deprived of health care and education, and yet the logic of international account balances exonerates the bankers who insist on seeing their profit line grow at the expense of entire generations.

The IMF has approximately $30 - $40 billion worth of gold; the World Bank likewise is comfortably endowed and makes a tidy profit ($1.3 billion in 1996) on the loans it has made to its less impoverished clients. Both are putting up more buildings in Washington; neither is cutting back on pay for their legions of "experts." In the face of this absurdity, we all simply look to the rules and say it must be so. Because no one pulls a trigger or pushes a button, we act as if the undeniable violence of enforced, needless poverty has no source and cannot be changed. This, truly, is the "banality of evil." We must insist on a new vision of economics, of banking, of resources, and of humanity. This outrageous undeclared war on the poor has gone on far too long.

RECOMMENDATIONS FOR DEBT CANCELLATION:

- The Heavily Indebted Poor Countries (HIPC) debt initiative of the World Bank and IMF has proved at best insufficient, and more to the point, merely a device to entice governments into adhering to senselessly harsh structural adjustment programs when they have few other incentives to do so. Countries which have gone through it, such as Uganda and Mozambique, have found its "benefits" negligible. Its framework, which continues to call for countries to adhere to SAPs and which reserves all decision-making power for the international financial institutions and the Paris Club of creditors, must be scrapped. In its place should be established a neutral arbitration body which will treat international debts of impoverished countries much as municipalities' debts are treated in the U.S. -- something akin to a bankruptcy procedure for governments. No debt cancellation or reduction should linked to macro economic performance standards such as those set out by SAPs.

- The IMF's Poverty Reduction & Growth Facility (PRGF) like its predecessor, the Enhanced Structural Adjustment Facility (ESAF) does not constructively address the underlying problem of debt, but rather simply re schedules and adds to the debt burden. It should be terminated rapidly and its outstanding loans immediately subject to cancellation or significant reduction.

- Any past World Bank loan should be subject to challenge by governments or coalitions of NGOs, with an independent tribunal empowered to release governments from obligations on failed projects or contracted by corrupt or autocratic officials.

- Debt contracted by undemocratic governments or which never served the interests of the parties now charged with its re-payment (e.g. apartheid-era debt in South Africa; funds which went directly from the IMF into Zairean dictator Mobutu's bank accounts) must be declared "odious debt" and canceled.

● Future loans should be submitted to an open, democratic process in each borrowing country so that debt is contracted only with the informed consent of the citizens who will use the funds and repay the debt.

Debt cancellation is a matter of fairness, of justice. Debt cancellation requires creditors take responsibility and bear some of the burden which to date continues to be disproportionately born by debtors, and especially populations in debt countries who benefited the least from the loans. Debt cancellation would be a first step in rectifying an obscene, inhumane, and profoundly unjust system. One cannot help but ask, as did Mwalimu Julius Nyerere, Tanzania's first president, "Must we starve our children to pay our debts?" The price of maintaining the international debt system is too high; too much and too many are being sacrificed – millions of lives, environmental protection, livelihoods, resources, basic needs (water, education, food security, shelter, health care, etc.) and the dignity of billions. Another way is possible: “Cancel the Debts, NOW!”