JUBILEE AND THE INTERNATIONAL DEBT CRISIS*

INTRODUCTION

A few years ago, I participated in a Church World Service delegation to Honduras. At one point we traveled to Dominguez, a small community in the mountainous state of Intibuca, to christen a library in the local school. It was a nice ceremony but when it was over, one of our delegation members asked why we were there. "Why are we setting up a library *in a school*? Isn't this something that, well, that schools *do*? Don't the teachers do that?" The answer from our host was revealing. "Oh," he said, "the government can't afford teachers. These schools were built years ago but we can only afford teachers two or three months of the year." Next, someone asked why the government did not have money for schools? His answer was equally revealing: Honduras has such an overwhelming external debt that annual payments on the interest alone have drained the country of the financial resources needed for basic human services like education and health. Honduras paid more of its national income on loans—many of which were twenty to thirty years old—than it did on health care and education combined.

This story illustrates the extent of the debt trap that grips many nations in the global south. Countries like Honduras are too poor to ever finish paying off their debts. Yet they will never have sufficient resources to thrive as long as they continue to make debt payments. It is a Catch-22 that will keep them impoverished forever.

Prior to the increase in assistance that followed the destruction of Hurricane Mitch in 1998, Honduras received roughly $20 million in aid from the U.S. every year. At the same time, Honduras was paying over $20 million to public and private banks in the U.S. every *two weeks*. So even if church members provided additional support to Church World Service and the U.S. government doubled its foreign aid, the assistance would still have been just a tiny share of what was needed because of the huge debt load Honduras carried. Unfortunately, this is a common situation among countries in the global south.

The story of Honduras also illustrates the control that international financial institutions like the World Bank and the International Monetary Fund (IMF) have over poor countries. In recent years, these institutions have purchased from commercial banks many of the loans the banks had made to these nations. Thus, the IMF and World Bank have tremendous influence over the internal policies and government functions in these countries.

For example, Honduras struggled for years to qualify for an IMF/World Bank debt relief program called the Highly Indebted Poor Country (HIPC) Initiative. The Initiative allowed poor indebted countries to receive a partial debt cancellation if they made major changes in their economies, including major reductions in government spending. Commonly, this required draconian cuts in education, transportation, and health care, among other things. In Honduras, it resulted in the disintegration of much of the physical and social infrastructure. But in 2001, the Honduran legislature voted to raise salaries in education by 44% over three years. (Despite the big increase, salaries would still have been lower than the regional average for comparably trained people.) Nonetheless, the IMF warned Honduras that this legislation would delay the country's participation in the HIPC Initiative and postpone debt relief. Honduras immediately cut the teachers' raises in half, putting them again dead last in the regional comparison. In other words, unelected, non-transparent international agencies have the power to change legislation on schools and education in a sovereign country. Honduras saw that low salaries were causing an

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education crisis that threatened the future of its young people and the future of the country. But the IMF saw "fiscal slippage" away from the goal of reduced government spending.

CAUSES OF THE CRISIS

In the 1970s, the Organization of Petroleum Exporting Countries (OPEC) increased the price of oil more than 10 fold. Hundreds of billions of "petro dollars" flowed to these nations that were eventually deposited in banks in the global north. Banks, of course, pay for deposits; they make money on loans. But since the First World was in a recession at the time and there were few requests for loans, the banks turned to the countries of the global south. These countries were also in a recession but they were even more desperate for cash. So in a critically important move, private banks began making loans to sovereign, poor nations. The loans were made with few conditions and at initially low, but *variable,* interest rates; that is, if interest rates in the US rose, so did the interest charged on the loan.[1] In addition, the loans were made in dollars and had to be repaid with dollars. The hope was that the loans, if used wisely in ways to boost social and economic well-being, would lift a poor country to a higher level of economic development. But the reality fell far short of the dream. The result was an economic and humanitarian crisis of unimaginable proportions.

The most insidiousness problem is that no matter how unsound and "unpayable" the debt is, a sovereign nation can not declare bankruptcy. There is no provision in international law for a country to legally default on a loan. This meant there was no way that the banks could lose money on their loans, no matter how shaky they were—not even if the loans were stolen by dictators or repayment meant closing schools, clinics and roads.

Here's how the system worked: Let's say Mexico borrows $10 million dollars from Chase Manhattan Bank to build a water treatment system in Cuernavaca. Once the project is completed, Mexico has to pay back the money in dollars, not pesos. To get dollars, they must sell something to the U.S. (in many countries this means agricultural commodities like coffee) and get paid in U.S. dollars. This money is then sent back to Chase as payment on the loan. As Mexico obtains more loans, the country becomes more dependent upon exports to earn dollars for debt payments. Multiply this by dozens of loans, by dozens of banks, to dozens of *countries* and you see how this subtly created one of the most profound changes in the global economy in generations. Third World countries that previously had little or no trade with the First World were suddenly reorienting their entire economies in order to earn dollars to repay their loans.

This functioned reasonably well for a while. But in 1982 the U.S. and Europe experienced another recession and at the same time, interest rates sky-rocketed. So, too, did the variable interest rates on the loans—in some instances as high as 27%. In addition, the recession and loss of buying power meant the First World bought fewer commodities from the Third World. Fewer sales meant less revenue and it also caused prices to fall. So at the same time that countries' interest payments on their loans were rising, their ability to pay their debts also declined. It was a "perfect storm" of global economic factors that ripped the bottom out of those economies. It hit both greedy dictators and conscientious democracies. Every country enmeshed in this system was punished by it and suffered enormously. The 1980s are called the "lost decade" because the level of economic development in so many countries declined—some by as much as *a hundred years.* Many countries are still "lost."

To make loan payments, countries made dramatic cuts in health care, education and infrastructure. Because of the high interest rates and the need to borrow new money to pay old loans, total debt continued to grow. Even today, many poor countries are paying two to three times more to rich countries each year than they receive in development aid. Africa, for

example, spends about 70% of its export earnings on external debt servicing, leaving little for health, education, agriculture, food security, and other basic needs.[2]

The first response from the so-called "developed" countries was denial. The banks viewed it as a temporary "balance of payment" problem that could be addressed by rescheduling payments and rolling over the debt. Eventually, it became clear that "business as usual" would not be sufficient.

At that point, the U.S. Treasury, the IMF, the World Bank and its regional banks stepped in, buying up the "unpayable" debts from the private banks. (Thus, the private banks were saved from the losses they would otherwise have sustained from these unwise loans.) The international financial institutions offered poor nations lower rates of interest but, in return, required debtor countries to make changes in their economies that (in many instances) increased poverty. These "Structural Adjustment Programs" (SAPs) required:

(1) cuts in public services such as health and education, making them unaffordable to the majority;

(2) cuts in government spending that resulted in the lay-offs of thousands of workers, raising unemployment;

(3) privatization of many state-owned institutions and businesses, making many goods and services unaffordable to many people; and

(4) devaluation of the currency, making exports cheaper and imports more expensive.[3]

A former IMF economist has estimated that the SAPs have been responsible for the deaths of some six million children every year since 1982.[4]

Clearly, many of the countries that received loans were corrupt or used the money unwisely. But it is equally clear that many of the loans should never have been made. (A 1992 internal World Bank review found that even among its loans, over one-third did not meet the Bank's own lending criteria.[5]) There were two parties to each of these transactions – the lender and the borrower. The private banks have largely escaped paying the price for their folly. Only the borrowers are suffering the consequences of this lending spree gone awry.

There is one additional factor that has penalized poor countries. The U.S. (and the West in general) had a nasty habit of making loans to dictators just because they were anti-Communist—for example, Mobutu Sese Seko in Zaïre (now the Democratic Republic of the Congo), Jean-Claude Duvalier in Haiti, the Somozas in Nicaragua, T.N.I. Suharto in Indonesia, Augusto Pinochet in Chile, and Idi Amin in Uganda. These nations, still recovering from years of brutality, are continuing to suffer from the repayments required for the loans bestowed on their former dictators.

The lending institutions argue that while belt tightening may cause suffering in the short run, it will improve the standard of living for future generations. Call it an economy for the end of time, an "economic eschatology." In other words, the children of the children who manage to survive will be better off. Critics argue that the "end" will never come. But few disagree that thus far the adjustment programs have caused suffering, malnutrition, and hunger around the globe.

A more subtle goal of these policies is for governments and the public provision of supports and services to shrink. More goods and services will be provided through the market – for a price. This is driven by the belief that government is bad and the market is good. It is the "Market

Fundamentalism" of the Reagan and Thatcher administrations, and it underlies much of current economic and military policy. Market Fundamentalism is possibly the most influential secular "theology" in the world today.[6] Its goal is a world where the "market" is "free," unregulated, and disconnected from weakened national governments. This is one of the driving forces in the contemporary model of economic globalization.

HOPEFUL DEVELOPMENTS

In 1996, due in large part to the urging of Jubilee faith communities and other advocacy groups, the IMF and the World Bank initiated a debt reduction plan called the "Highly Indebted Poor Country" (HIPC) initiative. However, conditions for participation were so stringent that few countries qualified and little debt relief was granted. By 1999, continued pressure forced the launch of an "enhanced" HIPC Initiative. But, as with the first, little has been accomplished. For the program to be effective, the IMF must reduce the structural adjustment conditions and shorten the time period for qualifying for relief.

The debt crisis is still with us. Over the 1980s, poor countries paid banks and lending institutions more than $1.3 trillion, the equivalent of six Marshall Plans. By 2003, the total was up to $2.5 trillion and growing. Meanwhile, total debt outstanding has risen by 115% due to higher interest rates, price declines, and the need for additional borrowing to finance existing debt.

Positive things are happening. In their February, 2005, meeting, Finance Ministers of the "G-8" countries (the eight wealthiest nations) spoke for the first time about the need for 100% relief from the debt owed the international financial institutions. The influence of the G-8 on the decision making of the World Bank and IMF is tremendous. So this is an important step toward the ultimate goal of full debt cancellation. Unfortunately when the group met again in April, they could not agree on how to finance this debt cancellation. So they took the issue off the negotiating table and shrank the list of qualifying countries from 62 to 27 or less. However, at this writing, the occurrence of high level talks about *how,* not *whether,* to cancel debts is helpful.

There has also been some progress in the U.S. Congress. In 2004, the JUBILEE Act (HR 1130) was introduced. The Act calls for debt cancellation for 50 impoverished nations, insists that such cancellation come without devastating structural adjustment conditions, and stipulates it be paid for with resources from the IMF and/or World Bank.

WHAT CAN WE DO?

1. Build debt relief into your One Great Hour of Sharing, Blanket Sunday, etc. offerings. Highlight the biblical and political aspects of the issue. Make a chain across the sanctuary and have a "Chains of Debt" breaking ceremony. Debt relief is a hunger issue, a justice issue, and a moral issue.

2. Join with others to tour a highly indebted country like Honduras, the Philippines or Kenya. Learn what happens when a country is forced to spend its national income to pay decades-old debts.

3. Become a "Jubilee Congregation" by making the following commitments.
   - Pray for a Jubilee for the world's poorest countries. At bottom this is a profoundly religious issue.
   - Appoint a person to liaison between your congregation and Jubilee USA.
   - Contribute one dollar per active church member to Jubilee USA each year (or whatever you can afford).

- Send the equivalent of one letter per active member per year to a member of Congress, the administration, the World Bank, IMF, or a local newspaper.

WORSHIP

"'How long will you go on getting rich by forcing your debtors to pay up?' But before you know it, you that have conquered others will be in debt yourselves and forced to pay interest." Hab. 2: 6-7

Compassionate God,
Send us that we might do your work in accordance with your will.
May we be people who call for justice and peace, and who make right relationships.
May we not shy away from taking action that will save lives and make change.
Be with us as we stand with our global neighbors calling for a new world where all children are valued and have access to food, water, health, and education.
With you O God, we will make all things new.
Amen

ADDITIONAL RESOURCES

International Monetary Fund www.IMF.org

The World Bank   www.worldbank.org

Jubilee USA (The main US faith-based debt cancellation organization, and sponsor of the Jubilee Congregations program) www.jubileeusa.org

Fifty Years is Enough (Founded to mark the fiftieth anniversary of the World Bank) www.50years.org

World Bank Bonds Boycott (A campaign to boycott purchases of World Bank bonds as a way to influence their loan-making practices toward more moral ends)   www.worldbankboycott.org

ENDNOTES

[1] Robert Devlin. 1989. *Debt and Crisis in Latin America: The Supply Side of the Story*. Princeton, NJ: Princeton University Press, pp. 8-55.
[2] American Friends Service Committee. *Africa's debt: Odious and illegitimate.* February 1, 2004.
[3] Anup Shah. 2003. "Structural Adjustment: A Major Cause of Poverty" www.globalissues.org/TradeRelated/SAP.asp.
[4] Weisbrot, Mark. 1997. "IMF Cure: Worse than the Disease?" *St. Louis-Dispatch* (December 23).
[5] United Church of Christ. 2003. *Faithful Response.* p. 7.
[6] See John Williamson, "What Should the World Bank Think about the Washington Consensus?" *World Bank Research Observer,* v15 no. 2 (Aug, 2000), p. 251-64.