

background & testimony

Introduction to the Debt Crisis

“Must we starve our children to pay our debts?” – Julius Nyerere, former president of Tanzania

Many people know what it feels like to owe money, such as for a mortgage on a house. But it is a different matter to be deeply in debt and unable to repay it. And even worse to be in that situation if someone else ran up the debt and left you to carry it.

In the United States, the bankruptcy line is a standard under which people are not allowed to fall. The government does not force individuals or families into homelessness and abject poverty in order to pay off their debts. No such line exists in current international law. When poor countries become deeply indebted they fall into an abyss of poverty; health, education and sanitation programs are slashed in order to make payments on the debt. Wealthy creditor countries and international financial institutions controlled by the wealthy nations control their debt and initiatives for debt relief.

This is unjust. It's time we did something about it. We can start by finding out how these huge debts were amassed and why governments are making little headway in paying them off.

Born in the U.S.A.

In the 1960s the U.S. Government had spent more money than it earned and to make up for this decided to print more dollars. So the world's stocks of dollars fell in value. This was bad news for the major oil-producing countries, whose oil was priced in dollars. The money they made from exports now bought less. So in 1973 they hiked their prices. They made huge sums of money and deposited it in Western banks.

Banking on the future

As interest rates plummeted, commercial banks in industrial countries and multilateral institutions like the World Bank and International Monetary Fund lent out money quickly. They looked to the growing economies of developing countries, offering the funds their governments needed for large development projects: roads, dams, manufacturing and more.

Banks lent without consideration of how money would be used or whether the recipients had the capacity to repay it. Developing country governments took advantage of loans at low interest rates – below the rate of inflation. At the same time, industrialized countries were giving less in grants and other assistance, instead loaning through commercial banks. According to UN analysis, policymakers in creditor and debtor nations were convinced that the debts would be repaid through the export earnings of developing economies.

Many of the loans were made to dictators and oppressive regimes, given for political reasons rather than development – often to win their allegiance in the Cold War. Little of the money borrowed benefited the poor, while all too often it found its way into private bank accounts. The poor were the losers. For example, South Africa is still paying interest \$18 billion in foreign debt accumulated by the apartheid government in the 15 years before it ended. Today, victims of apartheid pay the costs of their repression.

Headed for disaster

In the mid 1970s, Third World countries, encouraged by donors and funding agencies to grow cash crops, found that they weren't getting the prices they were used to for the raw materials they sold, like copper, coffee, tea, cotton, cocoa. Too many countries were producing the same crops, so prices fell.

Then interest rates began to rise, pushed further by an increase in U.S. interest rates in 1979. Meanwhile oil prices rose again. The trap was sprung – developing countries were earning less than ever for their exports and paying more than ever on loans and imports. They borrowed more money to pay the interest being accumulated by their original loans.

Caught in the trap

In 1982 Mexico told its creditors it could not repay its debts. The International Monetary Fund and World Bank – the two main international financial institutions – stepped in with new loans under strict conditions, to help pay the interest. This pattern was repeated over and over in the following years as other countries found themselves in similar situations to Mexico's. But their debts continue to rise, and new loans have added to the burden. Impoverished countries have reached bankruptcy.

When Mexico defaulted on its debt repayments in 1982 the whole international credit system was threatened. Mexico owed huge sums of money to banks in the US and Europe, and they didn't want to lose it. So they clubbed together and got the support of the IMF for a scheme to spread out, or reschedule, the debts.

Since then the IMF and the World Bank have been involved in lending money and rescheduling debt in countries which, like Mexico, cannot pay the interest on their loans.

But their loans add to the debt burden and come with conditions. Governments have to agree to impose very strict economic programs on their countries in order to reschedule their debts or borrow more money. These programs are known as Structural Adjustment Programs or SAPs. These policies have had devastating effects on poor communities, local businesses and the environment.

Political Responses to the Debt Crisis

Since the late 1970s there has been a growing concern by creditor countries that the global South would not be able to pay back their debts. The Heavily Indebted Poor Country Initiative was founded in 1996 as a response to the debt crisis, partly as a result of pressure generated by debt campaigners worldwide. The Initiative was an important acknowledgment that impoverished countries simply could not pay their outstanding debts and creditors needed to work together to address this. For the first time ever, debts owed to the World Bank and IMF were included amongst the debt to be reduced. The HIPC Initiative was never designed to be a debt cancellation initiative; it is a program designed to lower debts to a "sustainable" and therefore "payable" level.

During the 1999 meeting of the Group of 7 – Canada, France, Germany, Italy, Japan, the United Kingdom and the United States – in Cologne, Germany, the United States promised to cancel 100 percent of the debt they were owed by HIPC qualifying countries. Jubilee lobbied the Congress to make this pledge a reality. In 2000 and 2001, Congress wrote the checks for a total of \$769 million for bilateral and multilateral debt relief, fulfilling the commitment they made. These funds leveraged \$40 billion in debt cancellation for impoverished nations.

Still Working Towards True Jubilee

However the work is not done. It is clear that the HIPC initiative has failed to provide an “exit to the debt crisis” as promised. Now is the time for the biggest creditor institutions like the International Monetary Fund and the World Bank to provide debt cancellation for impoverished nations without further delay. The conditions currently attached to debt relief and new loans are holding back countries from being able to use their debt savings to the fullest potential. For example:

- The debt relief promised to date will reduce, on average, the debt service of impoverished countries by only one third. 100 percent debt cancellation is needed.
- Many countries have yet to see the debt relief promised as they struggle to implement harmful World Bank and IMF economic policies, like cost – recovery for water and user fees for health and education, in order to qualify for the money.
- More than half of African nations continue to spend more on debt than health care for their citizens, even after receiving HIPC debt relief.
- Too few countries have received debt relief under the HIPC initiative – only 15 have graduated from the program after eight years. More than 50 countries need cancellation.

September 11 and Beyond

Many major faith traditions agree true security depends on making the connection between our national and personal interests and the well being of global neighbors. Terrorism is a disease that grows out of and feeds on the breakdown of community. Community is destroyed by extremes – extremes of ideology to be sure – and equally by extremes of poverty, inequality and disease. Biblical scriptures prescribe debt cancellation as a means of community restoration.

Debt cancellation has been used as a diplomatic tool, demonstrated most recently by U.S. moves to reduce and reschedule Pakistan’s debt within days of September 11, and efforts to reduce Iraq’s debt. It is time to move beyond geopolitical motivations and provide full debt cancellation for all impoverished countries.

Sources: Dying for Growth, Common Courage Press, 2000; “The Debt Crisis: How it Came to Be,” UN Department of Public Information, Sept. 1989; Salih Booker, “To Help Africa Battle AIDS, Write Off Its Debt,” May 20, 2002.

Joining Hands to Break the Chains of Debt

Hundreds of millions of people living in poverty in impoverished countries alike are enslaved by a debt they can never repay. Debt costs lives, health, education and hope. The responses to the debt crisis thus far are a far cry from the Jubilee vision of release and restoration. Wealthy creditors have refused to release the power they currently exercise over poor countries through conditions on debt cancellation. Restoration of right relationships among nations cannot be achieved until the burden of unjust debt is wiped away. The Jubilee campaigns around the world have shown that concerned citizens working together can have a huge impact on international economic policies.