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A MATTER OF LIFE AND DEBT

Debt Relief for Less-Developed Countries

"The rich rules over the poor,
and the borrower is servant to the lender."

Proverbs 22:7

"The Jubilee year does not point us in the direction of the
communist model where the state owns all the land.
God wants each family to have the resources to produce its own livelihood.
Why? To strengthen the family."

Ronald J. Sider

"International efforts at poverty alleviation are profoundly
under-funded and consequently half-baked."

Jeffrey D. Sachs

SYNOPSIS: External debt among developing countries has reached unprecedented and enormous levels. The assumption of this debt was encouraged by Western banks flush with OPEC petroleum dollars in the mid 1970s. Since then, a rise in interest rates together with falling prices for commodity exports have resulted in developing countries with external debt payments that exceed the total of their annual exports and in some cases exceeds their annual GDP. The most radical Christian response advocates the cancellation of the external debt among the lower-income developing countries in keeping with the spirit of the year of Jubilee and the Bible's admonishment to not oppress the poor. Less radical options call for more selective debt forgiveness with the condition that the money saved be spent on the indigenous poor (e.g., primary education, health care) and with the enactment of other policies that in the long term will provide relief to the poor.[1]

Imagine two piles of stuff. First, take the richest 20 percent of the world's nations and put all their income in one pile. In the other pile put the income of the poorest 20 percent of nations. Of course the rich nations' pile is bigger, but by how much? Ten times? A hundred times? According to 2004 GDP figures, it's

1,486 times the size of the poor nations' pile ($38.1 trillion vs. $0.03 trillion).

Ethiopia has the lowest 2004 GDP per capita (PPP) of $562, while Luxembourg tops the scale at $69,961. Regional averages range from $692 per capita in South Asia and $746 in Sub-Saharan Africa to $4,045 in Latin America and the Caribbean and $32,098 in Western Europe.[2]

The reasons for these disparities are many. They include corruption, political instability and war; the legacy of colonialism and racism; overdependence on a small number of export goods; worsening terms of trade; the quadrupling of fuel prices during the two previous OPEC market manipulations; the lack of secure private-property rights and human liberties; inefficient state-operated enterprises; price ceilings on agricultural products; discrimination against women; tribalism; lack of access to capital for small farmers and entrepreneurs as financial institutions invest available funds in government bonds; and noncompetitive markets due to state licensure. In this chapter we consider the role that international debt has played in growth of the less-developed countries' (LDCs) economies and poverty. We'll also seek Christian responses to the issues.

The History

The debt story began in 1973 as the OPEC (major oil-producing countries) significantly raised their prices. The resulting flow of revenues was deposited in secure Western banks. As the increase in the supply of loanable funds put downward pressure on interest rates, banks desperately sought investment opportunities and turned, among other places, to the developing countries. The developing countries, whose economies were growing and who needed cash to meet the rising price of oil, were more than willing to borrow, especially given the current low interest rates.

Although a handful of developing countries used the cheaper borrowed funds to repay previous, more expensive debt, generally the money was wasted on spending (e.g., purchases on military arms and diversion of funds into the private bank accounts of government elites) that did little to stimulate long-term economic development or relieve poverty conditions. Then in the late 1970s stagflation (rising inflation and unemployment) hit the United States, and interest rates began to rise worldwide. Simultaneously, partly through encouragement by Western banks, the prices for developing country raw-material exports, such as tea, coffee, cotton, cocoa and copper, fell due to a market glut. Caught between double-digit interest rates and falling export earnings, LDCs ultimately had to turn to the World Bank and the International Monetary Fund (IMF) for rescheduling of their enormous debts.

As economist Joseph Stiglitz points out:

> The banks are also to blame for failing to take into account the risks associated with the loans they were making. They should have realized, for instance, that prices for goods like oil are volatile. The banks also placed too much trust in the assurance of foreign governments that the loans would be invested productively.[3]

In exchange for their assistance, the World Bank and IMF imposed strict economic policies, known as Structural Adjustment Programs, on the developing countries. The SAPs are in keeping with the mainstream macroeconomic policies that have been found to be successful in the Western democracies over the past five decades. The major SAP components include reductions in government spending; a tightening of government monetary policy; currency devaluation (typically against the hard currencies such as the U.S. dollar); reductions in barriers to trade, including import tariffs and quotas and controls on foreign investment; privatization of government-owned enterprises; market deregulation (especially with respect to price ceilings and wage floors); and a focus on the production of exports in which the developing country has a comparative advantage.

These are all policies that have been successful in stimulating economic growth and rising income equality in many industrialized nations and some middle-income nations, such as Argentina. For many of the developing countries, however, the timing of the policies could not have been worse. The reductions in government spending, naturally, had a recessionary effect, decreasing demand and increasing unemployment. The tightening of monetary policy raised interest rates and helped to further choke off investment demand and access to capital for poor farmers and low-income entrepreneurs. The currency devaluation did make exports cheaper but at a time when export markets for primary goods were oversupplied and prices were falling. Simultaneously, devaluation increased the costs of the hard dollars required to service the external debt and increased interest rates. Import costs also rose, making it more expensive for domestic producers to obtain new technology and replacement parts.

Specialization in low-income export crops put subsistence farmers particularly at risk. According to research, reducing barriers to trade increased the efficiency of most developing country manufacturers, yet one short-term effect was increased unemployment. Further, while privatization of government enterprises also increased efficiency, that was accompanied by downsizing, which resulted in unemployment for thousands of the middle class. Finally, the reductions in government spending came primarily from social expenditures on food subsidies, education, healthcare and infrastructure, exacerbating the condition of the desperately poor and increasing income inequality. This came at a time when research clearly shows that income redistribution through social spending directed toward education, improved healthcare, greater credit availability and land ownership all unambiguously increase a nation's rate of economic growth.[4]

Overall, according to an internal review by the IMF, "developing countries worldwide implementing SAP programs have experienced lower economic growth than those who have been outside of these programs." Between 1991 and 1995 the annual average growth rate in inflation-adjusted per capita income was essentially zero for all SAP developing countries, it was negative for sub-Saharan African nations.[5] Under the SAPs sub-Saharan African countries have seen their per capita incomes decline to lower levels than in the early 1980s, and finally begin to rise from 2000 to 2008.

As a response to this economic crisis and pressure from various nonprofit groups, including the Christian Jubilee 2000 Coalition, in 1996 the World Bank and IMF, together with the governments of various industrialized countries, initiated the Heavily Indebted Poor Country Initiative (HIPC). The 41 nations initially targeted include 33 in Africa, 4 in Latin America, 3 in Asia and 1 in the Middle East. The cutoff point is a fixed ratio of 150 percent for the present value of total external debt compared to annual exports. No new nations have been added to the HIPC pool through 2007.

Obviously these nations are seriously overextended economically. According to the figures from 1995-1997,

- total debt stocks are 349 percent of annual export earnings and 126 percent of annual GNP
- the present value of total external debt is 272 percent of annual export earnings and 98 percent of annual GNP
- annual debt service is 15 percent of annual export earnings
- the annual interest on the debt is 6 percent of annual export earnings

The present value of total external debt as a percent of annual GNP ranges from a high of 375 percent (Sao Tome) to a low of 30 percent (Burkina Faso). Annual debt service as a percent of annual export earnings ranges from a high of 81 percent (Zambia) to a low of 2 percent (the Democratic Republic of the Congo). By way of comparison, following World War II West Germany's debt service was capped at 3.5 percent of export earnings after a 10 percent proposal was rejected as "unreasonable" and was paid only after human development needs had been met.

An HIPC Trust Fund was established with contributions from all multilateral creditors and bilateral donors, including the World Bank and IMF. External debt servicing was to be cut by potentially $50 billion (out of total 1997 debt stocks of $201 billion) and when combined with traditional debt relief, the initiative would cut by more than one-half the outstanding debt of more than thirty countries. As of 2006, twenty-nine countries have qualified for debt relief packages amounting to approximately $62 billion, reducing debt service in these countries from 4 percent to 2 percent of GDP. The central goal of the HIPC is debt sustainability, allowing a country to reduce its debt overhang, attract foreign investment, sustain economic growth and as a consequence reduce poverty. Eligibility for HIPC, however, requires three years of successful implementation of SAPs. Critics counter that tying the SAP to the HIPC debt relief may salvage the best from a bad credit situation, but will only worsen the condition of the poor in most developing countries.

Consequently, the World Bank has made the production of Poverty Reduction Strategies a condition for receiving concessional assistance, especially those receiving debt relief under the HIPC Initiative. The strategies are to be "country-driven, oriented to achieving concrete results in terms of poverty reduction, comprehensive in looking at cross-sectional determinants of poverty outcomes, informed by a long-term perspective, and providing the context for action by various development partners."[6] A series of poverty forums has been begun throughout the developing world to facilitate the sharing of best practices on poverty reduction, selecting indicators for assessing progress and drafting of Poverty Reduction Strategy papers. Participants include the World Bank and IMF, government agencies, regional development banks and other multilaterals, bilateral assistance agencies, nongovernmental organizations (including church leaders), academia, think tanks and private sector organizations. This work has helped to articulate measurements for the World Millennium Goals for 2015; goals first promulgated in 2000 and consequently reaffirmed at the 2005 UN World Summit.

The Christian Response

The most radical Christian position on the developing-country debt crisis comes from the Jubilee 2000 Coalition, advocating the cancellation of the external debts of all HIPC countries. The biblical logic is that the debt crisis falls disproportionately on the poorest of the poor in the developing countries and the basic principles of justice and righteousness preclude us (the more economically fortunate) from being oppressors ("you shall not oppress one another" [Lev 25:14 NKJV]). Moreover, the principle behind the Year of the Jubilee is the equitable restoration of productive resources regardless of ability to pay.

> If one of your brethren becomes poor, and has sold some of his possession, and if his redeeming relative comes to redeem it, then he may redeem what his brother sold. Or if the man has no one to redeem it, but he himself becomes able to redeem it, then let him count the years since its sale, and restore the remainder to the man to whom he sold it, that he may return to his possession. But if he is not able to have *it* restored to himself, then what was sold shall remain in the hand of him who bought it until the Year of Jubilee; and in the Jubilee it shall be released, and he shall return to his possession. (Lev 25:25-28 NKJV)

As Calvin Beisner observes, "The Law of Jubilee was designed not to promote economic equality, but to prevent one family member's destroying an entire family's means of productivity, not only in his own generation but also in generations to come."[7]

Scripture clearly condemns hoarding (Prov 3:27-28; Jas 5:1-6). Christian financial adviser Larry Burkett adds that Christians should never lend more than they can afford to lose because "you will discover that if you live by God's principles your ability to collect a delinquent debt will be greatly curtailed because many common means of collection are unscriptural."[8] God is more concerned with our witness and the salvation of people than with the collection of debts. Typically the motivations behind most debt-collection efforts, be they greed, indignation, anger or revenge, are unlikely to further promote the kingdom. God's heart for the indebted poor is most clearly illustrated in the incident where the creditor was coming to take the widow's two sons as slaves when, following the instructions of the prophet Elisha, a few small jars produced enough oil to satisfy the debts and provide additional funds to live upon (2 Kings 4:1-7).

Stephen Smith raises three important issues with respect to the Jubilee 2000 proposal. First, Christian ethics require that contracts and commitments are to be honored (see chap. 1); lies and deceit are not to enter into economic transactions. Second, given the unequal distribution of talent among persons, a just and righteous society should honor and reward work and encourage stewardship and investment for long term investment. Third, Smith asks, Is developing country debt relief both a necessary and a sufficient condition for improving the lives of the desperately poor?[9]

Both the Old Testament (Deut 23:21-23; Eccles 5:4-5) and the incident of Ananias and Sapphira in Acts 5:1-10 make it clear that the breaking of voluntary contracts undertaken as covenants to the Lord is sin. Certainly, the loans to developing countries cannot be considered under the terms of covenants. In Latin the word *credit* refers to faith, fidelity and trust, and thereby implies that the lender trusts the borrower and believes in their ability to repay. There is no evidence that in the torrent of lending during the 1970s the developing countries deliberately misrepresented their ability to repay their loans or with foreknowledge intended violate the terms of the contracts. Such actions would be stealing and be forbidden by the eight commandment. There is some evidence that lending nations used loans as political "gifts" to prop up regimes for utilitarian purposes. In the final analysis, as in any financial transaction, the lenders bear the risk that the collateral is not sufficient and the loan will not be repaid. There are numerous instances of millions of dollars of European loans lost in bankruptcies to what appeared to be very sensible and sound investments in U.S. canals and railroads during the nineteenth century.

From a Christian perspective one could even go a step further with regard to the ultimate sanctity of the developing-country loan contracts. Scripture calls for mercy with respect to the repayment of debts owed by the poor. "He who is kind to the poor lends to the LORD, and he will reward him for what he has done" (Prov 19:17). "If there is a poor man among your brothers in any of the towns of the land that the LORD your God is giving you, do not be hardhearted or tightfisted toward your poor brother. Rather be openhanded and freely lend him whatever he needs" (Deut 15:7-8). And Jesus taught:

> If you do good to those who are good to you, what credit is that to you? Even "sinners" do that. And if you lend to those from whom you expect repayment, what credit is that to you? Even "sinners" lend to "sinners," expecting to be repaid in full. But love your enemies, do good to them, and lend to them without expecting to get anything back. Then your reward will be great, and you will be sons of the Most High, because he is kind to the ungrateful and wicked. Be merciful, just as your Father is merciful. (Lk 6:33-36)

Since the total GDP of the HIPC countries equal seven-tenths of one percent of the GDP of the major multilateral lending nations, the words of Christ would seem applicable. The call by Jubilee 2000 and the Congressional Meltzer Commission for immediate canceling of the debts of all HIPC countries is not so far-fetched.

With respect to Stephen Smith's second and third issues, many economists and others believe that debt relief to the HIPC and other qualified developing countries must be conditional. In a study of debt forgiveness for forty-one heavily indebted countries from 1989 to 1997, for example, William Easterly found that the net new borrowing exceeded the debt forgiven ($41 billion vs. $33 billion) and that much of the new money was spent on consumption rather than on programs and investments that would foster economic growth and relieve poverty.[10]

These conditions typically include the following:

1. *A preferential option for the poor with respect to the spending of the funds saved.* This includes increased spending on education, healthcare systems and degraded or nonexistent infrastructure (e.g., roads, water, sewer); increased access to capital for low-income farmers and microentrepreneurs; cooperative extension services to farmers; pre- and postnatal nutritional assistance; programs for the prevention and treatment of AIDS. While small budget deficits preserve macroeconomic stability, HIPC debt servicing in recent years has exceeded the combined spending of their health and education departments. (In 2005, for example, total debt service was 17 percent of HIPC GDP, and total public expenditures on education were barely 8 percent.)

2. *The institution of social security systems.* No debt relief should be given to any nation at war with its neighbors (peace-keeping duties excepted) or citizens, and military spending should be capped. Similarly, no debt relief is given to nations actively engaged in persecution of religious groups (e.g., Christians in Laos) or minorities.

3. *Active democracy and participation of civil society in governance; transparency in government affairs, particularly with respect to the budgetary process; and rigorous prosecution of governmental corruption.*

4. *An independent judicial system operating in accord with generally accepted principles of justice, law and fairness.*

5. *Export diversification with less emphasis on primary products and industrial strategies to produce exports for which United States and Europe will guarantee open markets (e.g., textiles and garments). Simultaneously, the steady reduction of protectionist barriers to domestic industries.* Such barriers are advocated by the left-wing to prevent the imperialism of multinational corporations and advocated by the right-wing to protect monopoly profits. In fact, research shows that protectionism fosters inefficiency, retards the adoption of new technology, raises consumer prices and reduces the range of consumer choice.

6. *Eliminate domestic price ceilings, especially on agricultural products, that retard the growth in supply.*

7. Investment by developed countries in technology necessary to foster developing-country development, particularly in such areas as health (e.g., AIDS, malaria, tuberculosis, diarrheal disease), alternative energy sources and more drought resistant crops.

8. The institution and enforcement of environmental policies and regulations.

9. Programs tailored country by country, rather than applied in cookie-cutter fashion, and with significant participation of domestic economists, public officials, and representatives of other constituencies (such as poor farmers) to include specific limits on long-term debt relative to ability to pay. This would be facilitated by having voting power with the International Financial Institutions, the World Bank and the IMF changed from an investment share basis to one member/one vote. This coincides with a sentiment among some experts that the World Bank should return to its original focus, economic development, not banking.

Conclusion

Given the condition of the poor and the governance systems in the HIPC developing countries, unconditional debt forgiveness could be simply pouring water on sand. As Roland Hoksbergen argues:

> We must structure our interventions so that all of God's people are respected and honored as image bearers, and are thus progressively encouraged to take responsibility for managing their affairs with justice and righteousness. Forgiving debts without regard to consequences is irresponsible, though forgiving debts with discernment and purpose can be a powerful force for good.[11]

What is heartening to observe is that debt forgiveness for the poorest of the poor nations is moving forward with a focus on programs that will provide long-term relief for the poor within those nations, and that Christians from around the world played a major role in bringing this issue to the forefront.

Discussion Questions

1. What is the biblical basis for the Jubilee 2000's call for the immediate canceling of the debts of all HIPCs?
2. What conditions do you believe should accompany debt relief to developing countries?
3. Why has the application of the World Bank's standard Structural Adjustment Policies been counter-productive in many developing countries?