

Debt Cancellation:

Historic Victories, New Challenges

By Mark Engler | May 17, 2005

An old maxim in social movements (adapted from Schopenhauer's prickly take on the history of great ideas) states: "First they ignore you. Then they attack you. Then you win." For years, campaigners for debt relief in the developing world and their international supporters were dismissed or derided. For 2005, however, a new question has emerged: Will they finally be able to claim victory?

A decade ago, in 1995, activists pushing for world leaders to cancel the huge debts that stunt development in the global South were told simply, "debt will not be a major issue."

By 1998, these same groups—led by the Jubilee debt coalition—were warned that they were asking too rudely for too much. "If you make a campaign out of it," one columnist wrote, or "use extreme language... the very people you want to influence, the ministers and officials of the rich democracies, stop listening to you."

The campaign continued despite these admonitions. Now, observers of the debt issue have predicted that major advance for cancellation is within reach, possibly as soon as this summer. Although leaders from the Group of Seven, or G7, wealthy industrialized nations failed to finalize a debt agreement in Washington, DC in April, they will continue their deliberations when they come together for their annual meeting on July 6-8 in Perthshire, Scotland. On the table is a plan to grant up to 100% multilateral debt relief for many of the world's heavily indebted poor countries.

That the legitimacy of 100% debt cancellation is now widely accepted represents a dramatic reversal in the debt debate. Many have commented in recent years that the globalization movement has won the moral argument about trade and development, but that its positions have not translated into policy. Yet the issue of debt provides one clear instance in which a network of international activists has affected gov-

ernmental decisionmaking and in so doing has opened real possibilities for human development.

At the same time, with U.S. Treasury Secretary John Snow presenting fresh barriers to progress on full cancellation and with advocates discussing difficulties that will face developing nations even in a post-debt-relief era, a win long in the making is bringing with it a series of new challenges.

The Making of "a Major Issue"

In the early 1990s, debt cancellation was far from the mainstream political agenda. While in the global South a discussion that began in the 1980s was raging—condemning an emerging debt situation in which some impoverished countries, especially those in sub-Saharan Africa, were paying more in debt service to advanced, capitalist nations than they were receiving from them in aid—the issue had very little traction in wealthy nations. "There was almost zero awareness" of the debt issue in the U.S. at the time, says Neil Watkins, National Coordinator of Jubilee USA. When a small group of social movement activists, along with government leaders from the developing world, tried to gain a hearing for the issue at the 1995 UN Copenhagen Social Summit, the U.S. impeded discussion. President Bill Clinton and British Prime Minister John Major ultimately avoided attending the summit altogether.

Not long after, though, the grassroots work on the issue began to bear fruit. The formation of the Jubilee network in 1997 united a broad spectrum of religious, labor, and nongovernmental organizations

Foreign Policy In Focus (FPiF)



into a joint international campaign. In May 1998, Jubilee helped mobilize 50,000 supporters to protest the G7/G8 summit in Birmingham, England. The protests returned in full force at the following year's summit in Cologne, Germany, where another 50,000 people formed a human chain through the city's streets to represent the "chains of debt."

During the same period, concerned members of religious congregations, in particular, witnessed some gratifying developments. The efforts of Roman Catholics drew notice when, in 1996, the Catholic Bishops of Africa began publicly denouncing debt payments made "at the expense of providing basic healthcare, education, and other social services to the poor in our countries." Bishops from Latin America came forward with similar statements. In November 1998, the late Pope John Paul II, who had shown previous sympathy for the campaign, held up debt relief as "a precondition for the poorest countries to make progress in their fight against poverty." Demanding immediate action, he asserted "it is the poor who pay the cost of indecision and delay."

Other religious bodies throughout the world came forward to endorse the Jubilee campaign. In the U.S. alone, these included the Episcopal Church, the Evangelical Lutheran Church of America, the Mennonite Church, the Union of American Hebrew Congregations, the Presbyterian Church, and inter-faith groups like the Inter-Religious Task Force on Central America, Church World Service, and the Ecumenical Program on Central America and the Caribbean.

By this time policymakers and pundits could no longer afford to ignore the call for debt cancellation. But some went on the attack. Following the Birmingham demonstrations, Andreas Whittam Smith, a columnist with the London *Independent*, echoed much of elite opinion by calling the Jubilee campaign's goals "laudable," but criticizing its political strategy as "badly conceived." Cautioning against "monstrous accusation" he defended the laborious negotiations about debt taking place at the World Bank and IMF, and he charged that the Jubilee coalition's political action would "be ineffectual... if not counter-productive."

First Victories

In fact, as grassroots efforts to highlight the issue grew, the G7 responded at each stage by grudgingly expanding its limited proposals for debt relief. In 1996, the countries controlling the International Monetary Fund (IMF) and World Bank introduced their first Heavily Indebted Poor Countries (HIPC) plan, designed to offer 42 of the world's most indebted poor nations some relief after six probationary years.

Unfortunately, actual cancellation of multilateral debt involved high levels of "conditionality." HIPC required poor countries to implement IMF-advised structural adjustment programs, which often resulted in cuts to health care and social service spending. Moreover, as HIPC progressed it soon became clear that debt relief was coming far too slowly to have any substantial effect.

In 1999, with pressure mounting, the IMF instituted HIPC-2. This plan accelerated the pace of relief, but it kept debt cancellation contingent upon structural adjustment. Moreover, the amounts of debt it canceled still left poor countries with unmanageable burdens. By the end of the year 2000, 22 countries had received some relief from the HIPC initiatives, yet the program on average had canceled only one third of each country's debt—hardly an adequate solution to the crisis, especially for impoverished nations that had more than paid off their original loans, but still owed massive debts. As the United Nations Conference on Trade and Development's 2004 report on Africa explained, "the continent received some \$540 billion in loans and paid back some \$550 billion in principal and interest between 1970 and 2002. Yet Africa remained with a debt stock of \$295 billion." The report concluded that the continuation of exploitative interest payments constituted "a reverse transfer of resources" from poor to wealthy countries.

Perhaps a more important victory came in September 1999, when President Clinton responded to intensive lobbying by announcing that the U.S. would cancel 100% of the bilateral debts owed it by the HIPC nations. Two months later, the UK put forward a similar plan for bilateral debt cancellation;

other creditor nations, such as Germany, France, and Japan soon followed suit. The governments' actions marked a critical milestone. At the same time, in dollar terms, the total cost of this U.S. bilateral debt relief was estimated at \$330 million, while totals for debt owed by poor countries to multilateral creditor institutions, such as the IMF and World Bank, were estimated in the hundreds of billions.

In 2000, Jubilee activists were also instrumental in pressuring Congress to pass legislation requiring U.S. representatives to the World Bank and IMF to oppose any project that charges end-user fees for basic healthcare and education services. Because of the influence the U.S. wields within these institutions, this measure dramatically curtailed the use of user fees, especially in education. As Robert Weissman wrote in a September 2003 *Washington Post* op-ed, 1.5 million more Tanzanian children were able to start school as a result of the 2000 victory.

HIPC itself, with all its limitations, also had an important impact. Because the program did provide some debt relief, it began establishing a track record for what cancellation could accomplish. Critics had regularly charged (and some continue to believe) that money from debt cancellation would be mismanaged and would not be used to reduce poverty. In fact, HIPC demonstrated that cancellation could be a most effective form of foreign aid, allowing developing countries to retain and make use of their own resources. By 2004, HIPC had advanced some measure of relief to 27 countries. A 2004 report from the World Bank showed that together these countries nearly doubled their total spending on poverty reduction—including education, healthcare, and clean water—in the period from 1999 to 2004.

Iraq's "Unjust Burden"

A final turn in U.S. policy came in the aftermath of the invasion of Iraq, when the Bush administration appealed to creditor nations to forgive Iraq's estimated \$120 billion debt. Long-time advocates of debt cancellation unexpectedly heard their arguments adopted by the president. In December 2003, as he was sending former Secretary of State James Baker on a special mission to lobby allies to cancel Iraq's debt,

George W. Bush argued that such debt endangered the country's "long-term prospects for political health and economic prosperity," and that the world must not allow the financial obligations to "unjustly burden a struggling nation at its moment of hope and promise."

By extension, the administration's stance on Iraq's debt put the U.S. on the record in favor of debt relief for a wide range of struggling countries. Yet even before this shift, calls for cancellation had become increasingly mainstream. A most visible example of the issue's popularity was then-U.S. Treasury Secretary Paul O'Neill's highly publicized May 2002 tour of debt-stricken African nations with Bono, the rock star turned humanitarian. A notable bloc of conservatives, led by economist Allan Meltzer, also defended the economic soundness of debt cancellation, arguing that a scaled-back World Bank should extract itself from the hopeless cycle of debt re-lending and refinancing. Meltzer's position has been influential within the Bush administration.

With even the U.S. government on board, the moral legitimacy of debt cancellation had been almost universally acknowledged; what remained was for policy to catch up. Observers were hopeful this would happen at an October 2004 meeting of G7 finance ministers in Washington, DC. Disagreements over details of a debt plan kept anything concrete from being completed at that time, however. G7 ministers came closer to an agreement when they met again in early February in London. In the wake of the tsunami disaster in Asia, the wealthy countries issued a statement agreeing in principle to "as much as 100% multilateral debt relief" for the 42 HIPC nations. Their stance in support of full cancellation marked another milestone for the Jubilee movement, but it left many practical questions unanswered.

The G7's Current Debate

Currently, there remain several key disagreements between U.S. and the European countries, led by the UK, about how a new debt plan should go forward. These issues will be on the table at July's G7/G8 summit in Scotland.

A first issue concerns how many countries will receive cancellation. The UK proposal, while theoretically open to all HIPC nations, would only offer immediate relief to the 15 countries that have completed a mandated program of economic reforms, along with five or six other non-HIPC countries who receive poverty-reduction support from the World Bank. The U.S. plan, while less concrete, would likely grant relief to 27 HIPC countries, but not to poor nations outside of HIPC's purview.

Activists have criticized the fact that not all the leading proposals actually cancel these countries' debts. The UK proposal would make debt service payments on behalf of poor countries over a period of ten years, after which developing countries would still be responsible for the original debt stock.

Finally, perhaps the most contentious question that finance ministers are now debating pertains to how the program, whatever its scope, will be financed. The UK has proposed that debt relief be financed primarily through a sale of the IMF's gold reserves. The reserves are widely acknowledged to be undervalued, and a simple revaluation could allow relief to be granted swiftly and painlessly. But the political will required for such a move is not necessarily easy to come by. One reason the White House opposes this approach is that existing laws would require it to gain congressional authorization for such an action, something it is not eager to do.

Instead, the White House contends that funds for debt relief should come out of the budgets for the IMF's and World Bank's poverty reduction initiatives. Its plan would attempt to avoid any major gold revaluation that would require congressional approval. European representatives are opposed to this idea. They argue that a new debt program should include additional aid for poorer nations, and should not simply substitute debt relief for other aid that the countries are now receiving. To finance supplemental aid the British plan calls for increased contributions to the World Bank from its member states.

European complaints about U.S. financing proposals are rooted in a broader political opposition to

American unilateralism. In economic foreign policy as in its push for "regime change" in Iraq, the Bush administration has shown a willingness to sidestep international bodies and act alone. In contrast to the Clinton administration, which relied heavily on International Financial Institutions (IFIs) to enact its trade and development agenda, Bush's officers have largely shifted toward using direct aid payments as incentives for poorer countries to comply with U.S. desires and also toward initiating bilateral trade negotiations with nations that they consider strategically important.

In this context, European nations are interested in maintaining the World Bank and other Bretton Woods institutions as multilateral checks on U.S. prerogatives. With regard to debt relief, they are distressed that the U.S. plan will reduce the power of the Bank. They are opposed to suggestions made by Allan Meltzer, and increasingly forwarded by the White House itself, that the World Bank phase out loan-making in favor of giving grants. Absent large loans in its portfolio, the Bank's standing as a major creditor—and thus its influence on development policy—would be significantly diminished.

While European governments are convinced that this would be a bad thing, many critics from across the political spectrum would disagree. Interestingly, this debate has united unilateralist conservatives and long-standing progressive opponents of the IMF and World Bank. Each group favors decreasing the power of the existing IFIs, although for different reasons.

Erecting a new roadblock, Treasury Secretary John Snow announced in late April that the U.S. is unwilling to compromise on the issue of IMF gold sales, removing this option from the negotiating table. This has led to increasing skepticism that the G7 will reach a deal on this institution's debt stock in time for their July meetings in Scotland, and it represents a step backward from previous statements supporting broad relief in the near future. At the same time, an agreement on World Bank debt may still go forward; this step would create a landmark precedent for full cancellation.

A Movement Looks Forward

“As we celebrate our victory, we should remember that we have our work cut out for us,” wrote Watkins to Jubilee USA supporters after the G7’s nod toward 100% relief. In the build-up to and aftermath of the July talks, Jubilee and other advocates of debt cancellation will closely monitor negotiations and will push for several key demands.

First, they will lobby to ensure that the plans adopted actually reach the 100% target. The formulas created in upcoming meetings will determine whether full cancellation becomes a reality for many countries or whether it will remain rhetoric for all but a few of the very poorest debtors.

Second, advocates will continue to push for non-HIPC countries to receive cancellation. A number of very poor countries, such as Nigeria, Sri Lanka, Bangladesh, Jamaica, and Haiti, are not included in the HIPC process. Some “middle income” countries, such as Brazil and Mexico, have large populations living in desperate poverty, yet are too prosperous to qualify for debt cancellation under the HIPC guidelines. These countries require a new process that would allow them to spend their resources on poverty reduction and human development rather than debt service.

Many of the debts held by these countries were accumulated by dictators or other corrupt leaders; these are “odious” debts. Campaigners have long argued that peoples who overthrow undemocratic governments should not be saddled with debts accumulated by the deposed leaders. (As President Bush argued in the case of Iraq, the future of a people “should not be mortgaged to the enormous burden of debt incurred to enrich” a despot.) Instead, the international community must create a mechanism through which debts can be ruled illegitimate.

Third, activists will demand an end to neoliberal conditionality, working to see that the plan enacted by the G7 does not come with structural adjustment mandates like those included in the HIPC initiatives. Campaigners have rightly expressed concern that proposals such as the UK’s only cancel the debts of poor countries that have completed the HIPC program. In

effect, countries would continue to be required to submit to economic restructuring before being granted relief.

Finally, other advocates are moving beyond “historic” debt and working to see that, in a post-cancellation era, new debts do not accumulate anew. In 2004, the IMF and World Bank introduced a Debt Sustainability Framework to address new lending to developing countries. Civil society organizations have welcomed discussion of the new initiative, but they charge that the current proposal would keep negative “conditionality” firmly in place. As proposed, the framework would make the international institutions responsible for rewarding “strong policies”—which in IMF parlance has too often meant structural adjustment and trade liberalization. Given these policies’ poor record of producing growth in many developing countries, it is unclear how perpetuating them would preempt a new debt crisis.

This debate demonstrates that, ultimately, debt is only one aspect of the system of economic neoliberalism—better known in the U.S. as “corporate globalization”—that in the past 30 years has deepened the divide between wealthy countries and the nations of the global South. Even if thoroughgoing debt relief comes to fruition, most developing countries will still face steep barriers to exercising true self-determination and pursuing economic models that are not favored by the U.S. Treasury. Whether through making use of the IMF or directly leveraging their power as major donors and trading partners, G7 countries have often been zealous in promoting programs of economic restructuring similar to those forced on HIPC nations—even among countries that are not heavily indebted.

As neoliberalism falls into increasingly ill repute, and as a greater number of countries escape the bonds of debt, a globalization movement that has attracted many new supporters with its call for debt cancellation will face the task of defending alternative economic courses that defy Washington orthodoxy. In this respect, debt relief will not be an end in itself, but a means of confronting the broader issues that are shaping the course of international development. Long-term challenges need not detract from historic advances, however. If 2005’s meetings match expecta-

tions for progress, campaigners in the global South and their broad network of allies should be able to savor an important, if incomplete, victory.

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Published by Foreign Policy In Focus (FPIF), a joint project of the International Relations Center (IRC, formerly Interhemispheric Resource Center, online at www.irc-online.org) and the Institute for Policy Studies (IPS, online at www.ips-dc.org). ©2005. All rights reserved.

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Recommended citation:

Mark Engler, “Debt Cancellation: Historic Victories, New Challenges” (Silver City, NM & Washington, DC: Foreign Policy In Focus, May 17, 2005).

Web location:

<http://www.fpif.org/papers/0505debt.html>

Production Information:

Writer: Mark Engler

Editor: Emira Woods, IPS

Layout: Tonya Cannariato, IRC

p. 6

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