



The global debt campaign: **what are the next steps?**

Edited by
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NIGD Discussion Paper 4/2007, with Attac Finland

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ISSN: 1458-7823
ISBN-13: 978-962-5455-11-3

Cover design and layout: Herkko Eskelinen
Printed in Jyväskylän yliopistopaino, Jyväskylä, Finland

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About this Discussion Paper

This publication is the result of a project Attac Finland and NIGD conducted in Helsinki, Finland, in 2006. The final outcome of the project is this Discussion Paper, an extended version of its sister Discussion Paper in Finnish. Initially, we aimed at issuing a Discussion Paper in Finnish only, but since much of the material we received was in English, we decided to publish the input also in printed form this way.

The aim of the project was to map and analyze the different streams of proposals within civil society for solving the debt problem. Further, we wished to see if and how these proposals differed. And thirdly and most importantly, we aimed at raising discussions on ways forward in developing new, solid, and forceful global campaigns for solving the debt problem.

In this paper, we have relied on civil society documents and statements, and intentionally left the academic discussions aside. This is because our purpose has not been to analyze the debt issue as such, but rather to analyze the stands of civil society organizations and movements.

The methodology we relied on was to invite speakers from organizations and movements working on the debt issue to present their positions. The speakers come from the global South, the place where the consequences of the debt of developing countries is felt in practice and also in-between crisis of the financial markets. Based on the presentations of the speakers, we have compiled notes and these notes form the backbone of this publication. Naturally, the note takers and editors bear responsibility for the emphasizes and interpretations.

We tried to invite persons representing importantly differing interpretations of the mechanisms worth promoting to solve the debt problem. Naturally, this small selection of representatives of the global debt movement is not an adequate number to make a thorough analysis on the overall movement. Rather, we have aimed at lifting up specific points causing disagreements thus paving a path for suggestions of ways forward.

In line with many other specialized fields, also the discussions on debt lies upon a swamp of acronyms. We hope the list on page 7 of this publication helps the reader along the path.

Thank you to the Finnish Ministry of Foreign Affairs for providing funding for part of this project. Naturally, the views and statements in this Discussion Paper do not necessarily reflect positions by the Ministry.

In Jyväskylä and Helsinki, Finland,

Teppo Eskelinen and Katarina Sehm Patomäki

Acknowledgements

A first set of warm thanks goes to Saul Banda, Jorge Marchini, Lidy Nacpil, Odour Ong'wen, and Oscar Ugarteche for having taken the time to travel all the way to Finland. Warm thanks also to Taoufik Ben Abdallah for sharing ideas with us during his timely visit to Helsinki.

Thank you to the debt group of Attac Finland and Linus Atarah and Hanna Kuusela for ideas and commenting on various steps of implementing this project.

Thank you Otto Bruun, Laura Jalasjoki, Matti Kohonen, Heikki Patomäki, Mika Rönkkö, Marko Ulvila and Johannes Urpelainen for organizing, chairing or speaking at events. Johannes and Laura also reported from sessions and contributed to the backbones of the publications.

Thank you Ruby van der Wekken for not only organizing and administering an important part of the project and the events but also for maintaining a positive and constructive attitude during the darker moments of administrative distress. In line with Johannes and Laura, also Ruby reported from the sessions.

And finally, thank you also to Herkko Eskelinen for designing the cover.

List of abbreviations

BWI	Bretton Woods Institutions
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
IFI	International Financial Institutions
IMF	International Monetary Fund
LDC	Less Developed Country
MDRI	Multilateral Debt Restructuring Initiative
ODA	Overseas Development Assistance
PRSP	Poverty Reduction Strategy Paper
SAP	Structural Adjustment Program
WB	World Bank group

PART I: Time to revive the global debt campaign?

The debt problem – a long story

Teppo Eskelinen and Katarina Sehm Patomäki

The debt problem of the poor countries is a long story. It is also a die hard issue within civil society. In fact, the debt problem has been on the agendas of civil society organizations since the 1970s. During these 35 years the debt issue has stirred the emotions of many people. The New York Times estimates that by 2005, an impressive number of 160 million people had mobilized around the debt issue. And the discussions extend well and far beyond civil society - since the late 1990s, the debt issue has been a constant on the agendas of the G7/8 meetings.

Since the default of Mexico in 1982 brought the debt issue onto the international agenda, the stated aim of official initiatives is to provide a solution to the debt problem of the poor countries. The official side claims to be singing the tunes of civil society voices. But despite the perceived unison, and despite a whole range of regularly announced new debt relief programs, the debt burden of poor countries continues to grow. Civil society documents refer to the debt of poor countries as having climbed from USD 70 billion in 1970 to USD 540 billion in 1980 and today exploding into some USD 2800 billion. In other words, the debt has increased 40 times in 35 years. Against this background it seems that the debt problem of the poor countries will also remain on the agendas.

It is also noteworthy that in the rare cases where canceling of debt has been successful, the cancellations have been backed by strong political motivation. These cases range from halving Germany's debts in 1953 in the light of fear of the resurgence of Nazism, via the attempt at suffocating communism in Poland in 1980 to most recently the writing off of debts of Iraq in 2004 following the installation of the new regime.

In continuation, and looking beyond mere number crunching, civil society points to the background of structural imbalances in the world economy. These structures were set in 1945 by the victory powers of World War II, or by those with the armies and the resources at the time. In contrast to creating a world economic system striving for global economic balance, the system was set to spiral a situation where countries in economic deficit are driven towards restrictive policies and where the deficit countries themselves are responsible for their deficits. The alternative model would have been to create a mechanism where creditors and debtors both strive for a balance in the world economy. For instance, in 1944 at the time of creating the BWIs, John Maynard Keynes had presented a system where both debtors and creditors would be penalized.

The observations that the overall debt keeps increasing despite repayments, that debt cancellation takes place on political grounds rather than economic ones and that the debt problem stands on a ground of structural imbalances lead to the interpretation by civil society that the debt issue is above all a political problem as opposed to an economic one. While civil society maintains the political pressure on solving the debt issue, the official side, in contrast, has maintained the discourse of the debt issue being an economic problem.

In the 1980s when the debt crisis first emerged internationally, instead of addressing the structural imbalances causing the debt trap, the official response developed by the International Financial Institutions was to label the situation a crisis of illiquidity. The remedy for an illiquidity diagnosis was to shovel in more money (new loans) to bridge the temporary situation. In retrospect, the new loans only aggravated the initial problem. The official side setting the agenda stands here for the international finance institutions. It is perhaps worth noting that these same institutions are the ones administering the debt of the poor countries. It is also worth mentioning that the decision making of these bodies is geared by the creditors. To concretize, the international financial institutions administer the bulk of the African debts.

Following the politics of illiquidity, economists Paul Krugman, Jeffrey Sachs, and Joseph Stiglitz embarked upon developing the theory of the debt of poor countries. Among other things, they introduced debt forgiving and suggested that forgiving should be applied alongside financing. Jeffrey Sachs was the first to suggest that debt reduction could create favorable incentives in an indebted country.

Today, if we put the debt issue into a contemporary frame, the most indebted nations in the world are also the poorest nations in the world. Partly building on this, debt relief is today discussed mainly within the frames of development aid.

But Oduor Ong'wen problematizes the prevailing concern about poverty in poor countries. Discussing the debt problem within the development aid regime deviates the attention from necessary structural reforms of the world financial system. The problem with this approach is that it focuses on the symptom rather than the causes of the problem. In line with this, and proactively, Oscar Ugarteche refers to the man-made debt problem and calls for a new international financial code, a new currency system and a board of arbitration.

During the past decades that the debt issue had been discussed and debated, creditors have maintained a language based on economic reasoning in speaking of the debt issue while civil society has called for political change. Within this call for political action, civil society organizations and movements have referred to legal, moral, ethic, social arguments, not leaving out human rights' or ecological perspectives. The recent Norwegian decision in October 2006 to unilaterally cancel Norway's debts to some countries seems to have activated further the discussions on the role and responsibility of lenders. Lidy Nacpil explains that Northern and Southern organizations have been meeting to discuss odious debts already for some time. But with the Norwegian statement, odious debt suddenly emerged as a politically viable argument in calls for canceling debts. This was particularly visible at the World Social Forum 2007 in Nairobi, Kenya, where an important number of debt organizations and movements kept meeting to discuss illegitimate debts and the changing debt scenario in terms of the changing nature of debt and the future role of the IMF. As there seems to be some confusion among activists regarding the application of the terms illegal, odious, illegitimate and ecological debt, we have inserted a useful chart by EURODAD on page 14. The chart is one attempt at clarifying some of the important and used concepts within civil society.

As listed, on the civil society front, a whole range of approaches have been debated, merged, contested, analyzed and advocated. At times unexpected liaisons have been formed. Perhaps the most prominent surprise supporters of dropping the debt are Bono and Bob Geldof. But within this movement, or rather, movement of movements, there has been a number of disagreements and arguments.

Different camps promote different solutions. At times, the divisions are deep and at times these divisions have been infected. In addition to traditional North-South gaps, groups from different continents and different regions find it hard to agree on single mode solutions. The most visible split emerged in 2000 when Jubilee South broke off from the Jubilee movement.

The twists

Today, the main issues dividing the opinions within civil society can be listed according to three categories: firstly, we have the discussion on the usefulness of debt relief versus calls for debt cancellation. Here we see positions both against and for multilateral debt relief initiatives. Secondly, there are discussions on the appropriateness and morality of conditionalities tied to debt relief and cancellation. Thirdly, groups proposing different solutions seem to, at times, contradict each other. Within this category, two hot issues stirring emotions seem to be the issues of repudiation and debt arbitration.

In addition to political differences, we realize that divisions within civil society are of course not immune to dynamics driven by issues such as funding dependency relations and membership relations among other things. Here, we focus on de facto positions and tensions as they appear within civil society.

As regards the first twist on debt relief versus debt cancellation, on the one hand we have Jubilee South stating that a 100 per cent debt cancellation to the South as its political goal. By setting this goal, Jubilee South sees that a discourse on what countries "need" can be overturned. The concept of need has been dominating in the debt relief initiatives, thus forcing a "humanitarian" discourse, while keeping the restrictive economic policies intact. On the other hand of the spectrum, there are organisations which seem more willing to content with mere debt relief proposals. A practical matter which has caused some divisions within the global movement is how to react to the repeated promises on debt relief by the creditor countries and their groupings such as the G8. What the likes of Jubilee South see as mere rhetoric in these proposals, other see real, albeit insufficient, steps forward. In sum, perhaps one can say that civil society has often contended with promises of debt relief. The promise may not have materialised according to plan and once implemented, they have often been met with sharp criticism by civil society. Most recently, civil society has started to compile evidence pointing towards debt relief bringing with it conditions on ODA, and at times conditions on a decrease in ODA. This situation risks leading to increased debt burdens as decreased streams of ODA are easily substituted for by the lifting of new loans.

The second category causing discussions is on conditionalities and whether debt relief should be conditional. If so, this question sparks thoughts of how the conditionality should be designed. Saul Banda explains that the issue of conditionality is double-edged, and continues with saying that there is good conditionality and there is bad conditionality. Further, he brings in democratic decision making into the process: if conditionality is "non-democratic", it ought to be regarded illegitimate. Non-democratic conditionality implicates decreased sovereignty of the

debtor governments. The decreased sovereignty is seen as limiting the influence by the peoples on the country's economic policy and overall diminished opportunities of the people to influence the decision-making processes. Most conditionalities, especially those imposed by the multilateral institutions, have been seen as decreasing sovereignty. Lidy Nacpil says that there seems to be a certain difference in how the word "conditionality" is used by Southern and Northern campaigners, and to a certain extent, this varying usage explains the controversy on conditionalities. From Jubilee South's point of view, conditionalities mean illegitimate conditionalities in contrast to general conditionalities regarding financial terms, such as reports or other kinds of transparency. Interest rates serve as example: any loan comes with an interest, which is undeniably a feature of any lending scheme.

But, well then, what kind of a solution are the groups aiming at, and through what mechanism? This brings us to the third twist where we see discussions on cancellation, insolvency, arbitration and repudiation. So far, the movement does not seem to stand behind a common position or frame. Cancellation of debts has for long been the pronounced goal of the debt campaign. Yet the willingness to accept other ways of dealing with debt causes disagreements to arise. As regards arbitration, Lidy Nacpil lists two schools of thought. The one holds that campaigning for an arbitration mechanism to be set up is the best way to proceed in debt cancellation. The other argues that arbitration should be accessible as an option, to be used in strategically relevant cases. Lidy Nacpil said that she, as well as Jubilee South in general, leans generally towards the latter school of thought. Jubilee South does not place very high hopes in the possibility of creating an international debt arbitration system, and is therefore reluctant to put much energy into campaigning for such an institution. Yet Jubilee South admits that under certain conditions, and with very specific objectives, arbitration could be useful.

Yet, Lidy Nacpil assesses that the political prospective of a debt arbitration system is weak, since the interests of the debtors and creditors are too far apart. Lidy Nacpil continued that the only way to get the creditors to agree on setting up an arbitration process would be a major threat from the South, like a threat of repudiation. If moral arguments worked, this fight would have been won a long time ago. Oduor Ong'wen calls for questioning the claims of creditors and the fact that since the 1970s, creditors have lent money to illegitimate regimes and used unfair means in negotiations on interest rates. Lidy Nacpil prefers to use the concept of legitimacy, and emphasises that legitimacy cannot be reduced to legality (i.e. laws can be unjust). She goes on by arguing that some core values of legitimacy and fairness are quite universally shared, and from the viewpoint of legitimacy, most people would agree that a significant number of technically legal transactions have been quite unfair. As Odour Ongwen put it, the argument has moved from cancellation to the possibility of repudiation, and this is also the case in the African Union. An

important goal of the Jubilee South is to get Southern governments to repudiate on their debts. A threat of repudiation makes it easier to pressure the Northern governments to go forward in debt cancellation.

What's next?

Tackling the debt issue requires further analysis. Currently most research done on debt is by economists. Some research has been done by lawyers. Surprisingly little research on the issue of debt has been done by political scientists. Consequently, the language remains at a certain level of economic and legal jargon which is not always accessible to the people who are not specialized in economics or law. This makes it also difficult to address the issue in political terms. Yet as the analysis points to the direction that the debt issue is a political problem, so political analysis is exactly what ought to be done. As economic discourse does not deal with issues of power and democracy, it is a too limited discourse for dealing with international debt. It may be that debt as an issue is difficult to analyze, since the traditional boundaries of academic disciplines restrict proper analysis. It seems that more multidisciplinary work is needed.

The fact that research is also affected by creditor interests is reflected by the fact that very little research has been done on the actual cancellation of debts. By this we mean that there does not seem to be much analyses or would-be scenarios on what happens once the cancellation has been signed off. How will this affect the economy of the previously indebted country? What kind of national and international economic plans are required in order to prevent the country from acquiring new debt? And what is the plan for future borrowing?

The recent trends suggesting the changing nature of debt from external to internal debt and the new role of the IMF with many of the debtors making repayments ahead of schedule have only sparked the discussions further. It seems that most debtors have lost their confidence in IMF policies. This has led several campaigners to proclaim that the IMF is in crisis. The Fund's annual budget has sunk by 85 per cent since the Latin American crisis. Perhaps it even ought to vanish, as some civil society organizations and movements suggest. But, if so, what would a new international architecture look like? What should it look like? And what are the implications for this new trend of debtors paying off the IMF?

Part of the disagreements within the campaign seems to arise from the fact that globally uniform solutions entail elements, which do not instantly satisfy campaigners on all continents. For example the Latin American and African situations are different, and solutions to the debt crisis have to take regional and local sensitivities into account.

EURODAD: What is illegitimate debt?

Many civil society organizations in the North and the South believe that many debts are illegitimate and should not be repaid. But what is illegitimate debt? EURODAD divides illegitimate debts into four broad categories: illegal debts; odious debts; illegitimate debts; ecological debts.

Illegal debts are those which do not follow the basic legal norms and procedures of the country that takes on the loan, for example the person that signs for the loan is not authorised by the state to take-out loans in the name of the state or the creditor and debtor do not follow the procedures as stipulated in the national constitution of the debtor country. It is the shared responsibility of both creditor and debtor to ensure that loan agreements follow all legal norms and procedures and those which do not may legitimately be questioned.

Odious debts are defined by three main characteristics: a/ the loan did not benefit the population of the debtor nation in any way and indeed the funds may have been used to oppress the people(s) of a nation (absence of benefit) ; b/ the population of the debtor nation did not give its consent to the loan (absence of consent); and c/ the creditor was aware of these facts and yet proceeded to disburse the loan anyway (creditor awareness). Typically, odious loans are associated with dictatorial regimes such as that of Mobutu Sese Seko in the Democratic Republic of Congo, Ferdinand Marcos of the Philippines, General Suharto of Indonesia, the apartheid regime of South Africa and Saddam Hussein of Iraq. These regimes racked up huge debts with bilateral creditors such as USA, UK, France, Germany, the World Bank and IMF among many other creditors. Many of these loans were extended for purely geopolitical strategic purposes. Many NGOs argue that it is not fair that the populations of debtor countries bear these huge debts alone and that creditors should bear at least some co-responsibility for negligent, politically motivated lending.

Illegitimate debt is a much broader category. It applies for example to ill-conceived development projects which should never have been financed in the first place. An example of this is the Bataan nuclear power station in the Philippines. It is the Philippines' largest single debt. Completed in 1984 at a cost of US\$2.3 bn, it was never used because it was built on an earthquake fault at the foot of a volcano. The nuclear power station was financed by the US export credit agency Ex-Im Bank, Union Bank of Switzerland, Bank of Tokyo and Mitsui & Co, all of whom are still being repaid. The debt that has been cancelled today by the Norwegian Government is also an example of illegitimate debt. Between 1976 and 1980, Norway had a policy of supporting the export of ships to developing countries (such as Ecuador, Peru, Jamaica, Egypt, Sierra Leone, Burma and Sudan). It exported

these ships mainly to secure employment for a ship-building industry in crisis in Norway rather than any objective analysis of the development needs of the country purchasing the ships. This has been explicitly acknowledged by the Norwegian Government today which announced the historic step of taking co-responsibility for the debts which then followed.

Ecological debts can be those which cause untold environmental damage in the debtor nation (and the creditor was aware of the negative impacts which would follow on the local environment and/or local populations). Alternatively, many civil society organisations believe the North owes a huge “environmental debt” to the countries of the South. This is because it is the countries of the North that are responsible for the majority of the world’s environmental concerns, such as carbon emissions which are leading to global warming. Yet it is the countries of the South that are most suffering most the consequences of environmental degradation, such as erratic weather patterns.

Civil society organisations believe that it is the shared responsibility of both debtor and creditor nations to ensure that loan agreements reflect the aspirations of the debtor country and are not extended for purely political purposes. If creditors are assured that they will always be repaid (as is the case under the current system) there is no incentive to act responsibly. This is the classic moral hazard problem and is one of the factors that contributed to the current debt crisis. Eurodad, among many other civil society groups, is pushing for the principles of co-responsibility to be enshrined in international debt management.

Source: <http://www.eurodad.org/articles/default.aspx?id=737>

The regional situations differ for instance in terms of composition of debt. In Africa, the debt are largely public debts whereas in Latin America, debts are private. So one question to be answered is, should there be tailored solutions for different regions, and if so, what kinds of solutions for what regions? Jorge Marchini speaks of the setting up of a Banco del Sur, or a Southern Bank. The Bank would serve as a regional lender of last resort and rings well with Oscar Ugarteche’s call for regional banks, or lenders of last resort. Alternatively, perhaps we should look at the overall situation of global debt and set up an international debt arbitration mechanism?

Against the background of reportedly 160 million people having been involved in civil society activities to drop the debt of poor countries, at present, the creditors seem to be feeling little pressure to drop this debt. Rather, the debt issue seems to

be drowning among many others on the lists of civil society demands. There are of course exceptions to this generalization, and often the exceptions concern certain case studies. To name a recent example, in 2006 some organizations started working intensively to get parts of the debt of Liberia written off.

Most development agendas - including the Millennium Development Goals – not only mention the importance of solving the debt problem, but list the debt issue as a precondition for achieving other “development goals”. As more funds are needed by the poor countries, debt servicing costs are directly affecting the capacities of these countries to meet development goals. Solving the debt issue has to be seen as an issue separated from official development aid. So far, many debt relief programs have been funded with ODA funds, thus diminishing other ODA money.

Debt is, undeniably, a major political tool for controlling the economic policies of indebted countries. If the debt crisis would be resolved in a satisfying manner, thus including other economic reorganizations preventing future crises, also a range of social problems could be solved. But can debt become an overarching issue for civil society? Or will civil society be kept to remain reactive and more focused on the particular symptoms of the debt, as opposed to being proactive? The debt campaign has shown its capacity to mobilize large numbers of groups, and debt could become the link between social justice movements of the South and the more general altermondialist movement. Ultimately, calling for solutions to the debt problem resonates well with calls for global democratization. Yet in order for this to happen, the campaign will need first to broaden its political base, and to move beyond its internal disagreements. This means remobilizing civil society campaigns again involving large masses such as the church and labor organizations.

PART II: Voices from debt movements in the South

1. On repudiation

Oduor Ong'wen: The staggering resource externalization from poor countries – is debt repudiation the answer?

Discussion notes compiled by Johannes Urpelainen

There are two key issues to be raised related to the debt problem. First, the various mechanisms of resource externalization from Africa to industrialized countries and secondly, the possibility of debt repudiation. To put things in their proper context, the prevailing concern about poverty in poor countries should be problematized. The problem with this approach is that it focuses only on the symptom and not on the causes of the problem. Issues such as external debt should always be seen as a part of the broader framework of resource externalization.

The magnitude of resource externalization from poor countries is staggering: USD 2 000 billion every year. Annually, financial flows related to debt repayments and servicing account for USD 400 billion. Among other important mechanisms are:

- Interest rate differences that make it possible to earn huge profits in developing countries through short-term financial instruments
- Currency devaluations that aggravate the debt problem, especially as forced by the U.S. government
- Unfair terms of trade
- Capital account liberalization and repatriation of profits
- Privatization of public enterprises to be sold cheaply to foreign investors
- Harmful foreign direct investment
- Abuse of intellectual property rights to export and capture indigenous knowledge

To put things into perspective, debt repayment could be compared to the Marshall Plan: net transfer from indebted poor countries during the last 20 years is already equivalent to 50 Marshall Plans, which underlines that the debt crisis is less a matter of relief or cancellation and more a matter of justice. This interpretation, in which justice dominates over charity is supported by the history of the debts crisis. The money printed for warfare in Vietnam by the US government was redirected by the wealthy states in Middle East to developing countries, and primarily to unproductive uses such as supporting repressive dictators and to military expenditures. An important share of the debt is odious and the borrowed sum has already been paid back eight times since 1980. From this, it can be concluded that the debt problem has to be dealt with in terms of democracy.

Repudiation is morally and economically the best solution to all heavily indebted countries. These countries simply cannot, and ought not, use their money to pay debt which has already been paid. Arbitration mechanisms are insufficient. If they are used, it is admitted that some of the debts are legitimate and ought to be paid. In addition, a country in an arbitration process has to declare itself insolvent, which makes the relation between the creditor and the debtor problematic. Strategies referring to insolvency are humiliating. A country cannot practically be declared insolvent, but its people can. It is better to take people's needs as the starting point, rather than seeing financial markets as some kind of neighborhood store.

Taoufik Ben Abdallah, interviewed by Otto Bruun on 6 April 2006

Grounds for cancellation

In further detail, there are good legal grounds to question the claims made by the creditors. First, a contract is only to be respected if both parties honor their commitments. In the 1970's, however, creditors have lent money to illegitimate regimes and used unfair means in negotiations on interest rates. Similarly, it is common legal practice that in conditions of extreme necessity there is no need to repay debts. Finally, the debt crisis also has an aspect of sovereignty as it cannot be detached from the colonial legacy, such as the extraction of primary commodities.

In terms of international economy and governance, it should be noted that the voting procedures of international institutions such as the World Bank and the IMF work to the advantage of the industrialized countries. In economic terms, the net

outflow caused by the debt damages the economy and the financial problems of the government disrupt local capital formation as the government has to compete with private investors on resources. Furthermore, in contrast to debtor-creditor relationships within the industrialized countries, developing countries must pay their debt in all circumstances, including those of extreme necessity. Morally, not canceling debts in a situation of urgent need is problematic from Christian and Islamic points of view.

The poor countries have thus far been fairly humble in the debate on debt, but the developed countries have not reciprocated in any way whatsoever. There is little ground for the hawkish position of the developed countries as the magnitude of the poor country debt is small in comparison to that of the developed countries, and particularly that of the US. This makes it implausible to argue that debt cancellation would upset the global financial markets.

Together, all these facets of the issue made Odour Ong'wen to conclude that the argument has moved from cancellation to the possibility of repudiation, and this is also the case in the African Union.

Repudiation of debt addresses the correct question. But there is a worry: who is the other party and who are the counterparts? A situation of repudiation is not a situation of winners or losers but of all being victims. This may lead to polarization.

Rather, the issue of debt should be placed under the attention in another way. In addition, repudiation cannot be separated from investigation or auditing of the debts.

Jorge Marchini speaking on 16 November 2006 at the University of Tampere

Repudiation is a means, not an end. Possibly, repudiation could form a part of a certain holistic strategy. Such a strategy, however, may in itself prove unsustainable. This is because the present economic and financial architecture would entail a rupture between the debtors and the creditors which would bring with it major problems for the countries in question.

Repudiation is probable to become very expensive as the repudiating government would note the next day that it would not be able to afford its imports and so on. Repudiation could perhaps be called an economic suicide.

Oscar Ugarteche speaking on 16 November 2006 at the University of Tampere.

2. On conditionality

Saul Banda: Conditionality should come from the bottom

Discussion notes compiled by Laura Jalasjoki

The idea of conditional debt relief should not be immediately ruled out, but the issue of conditionality is double-edged. Conditionality of debt relief should aim at increased well-being of the poor in all aspects including democratic rights. But if conditionality is “non-democratic”, it becomes illegitimate. Non-democratic conditionality implicates decreased sovereignty of the debtor governments concerning the country’s economic policy and diminished opportunities of the people to influence the decision-making processes. So there is good and bad conditionality. In practise, the conditions of debt relief set by creditor countries and institutions have worked against poor people in countries like Zambia. This is mainly due to the macro-economic focus of debt relief initiatives. Their strict conditions also restrict the actions available for the governments and blur the accountability of these governments to their people. In other words, they have weakened democracy in the debtor countries. On the other hand, conditionality linked to so-called good governance – anti-corruption, democratic participation, transparency and accountability – is acceptable. This kind of human-oriented conditionality is typical for bilateral donors’ aid. The major debt relief schemes, however, are largely designed by the multilateral institutions.

Conditionality of debt relief should be kind of bottom-to-top conditionality, this meaning mainly increased accountability to the people. The conditions of debt relief should push the Southern governments to be more accountable to their people, rather than to the IMF and multilateral development banks. Also the countries’ loan contraction procedures should follow this principle and be transparent, accountable and allow people’s participation. This would eliminate the possibility of reckless lending and borrowing in the future, decrease corruption and make sure that future loans are used in an equitable way. This kind of a democratic loan contraction mechanism may be seen in Zambia in the near future, as it is included in the new draft constitution.

The Multilateral Debt Relief Initiative

Jubilee Zambia has campaigned for 100 per cent debt cancellation. When it comes to the Multilateral Debt Relief initiative, MDRI, the idea in itself is welcomed. Now the pledges have to be transmitted into action. In realizing the commitments, the question of additional funds is crucial and the G8 have to be held accountable for their commitments.

The problems of the MDRI are the neoliberal ideological principles of the HIPC initiative that preceded it and set the qualifications for the countries that are given debt relief; its diminishing effect on ODA; and the long time-frame of the initiative.

The countries that are given debt relief in the context of MDRI are countries that have reached the Completion Point of the World Bank's and IMF's HIPC program, which was set up in 1996. The HIPC Program can also be seen as continuation of previous loan conditions, the Structural Adjustment Programs and other policies designed by the creditors and donors. For the major part, the conditions forced on Zambia and other LDCs in these programs have implicated neoliberal economic policy including trade and financial liberalization, marketization of land and privatization of public water and energy utilities and state-owned companies. These economic restructuring processes have aimed at macro-economic stabilization but in many countries, like Zambia, the results show clearly that they have at the same time led to increased misery among the poor and increased capital flight from the LDCs to the rich countries. Thus the MDRI, based on the conditions of the HIPC Program, is leaning on economic principles that have proved negative in the face of poverty reduction. It has to be stressed, that different patients need different remedies: the same economic adjustment does not work the same way for all countries. This has proven to be true in the case of SAPs and should also be kept in mind when planning debt relief.

At the moment it seems that the MDRI will result in reduced ODA since donors will pay the compensations for the debt written off by the World Bank and the African Development Fund, AfDF, from their aid budgets. If the resources paid to the LDCs as aid decrease by the amount of the sums directed to debt relief, the Millennium Development Goals, MDG, cannot be reached. Both debt relief and increased ODA are needed to secure the LDCs' resources for their fight against poverty.

Also the time frame of the MDRI is problematic. The time frame of up to 40 years was a big disappointment for the civil society, which had campaigned for total and immediate debt cancellation. The long time frame of debt relief restricts the immediate benefits to the countries that receive debt relief and it also causes uncertainty about the future of the relief program. Present governments in the creditor countries cannot make a 100 per cent commitment for 40 years from today but only until the next election. This is why the given relief should be immediate.

The role of the civil society and debt campaigns

How then should the MDRI be dealt with? This is where the role of civil society and especially the cooperation between Northern and Southern civil societies become important. Civil societies in the North and in the South need to push their governments respectively: governments in the North should be pushed to hold their pledges and in the South to be accountable on the use of resources released by debt relief.

Apart from pushing the Northern governments to fulfil their commitments, civil society in the North should campaign for more debt relief and increasing the level of ODA. Different groups participating in the global debt discussion with different proposals to tackle the debt problem, like repudiation, arbitration or total cancellation campaigned for by Jubilee Zambia, should cooperate in the context of existing debt relief initiatives to assure their future. The problems of the conditionality that has lead to using the same economic prescription of privatization and market liberalization in all debtor countries should be kept in publicity and the necessity of more accountable conditions should be stressed. In the view of MDRI, he says, the question of additional resources is crucial. Whatever way is chosen to realize debt relief, to make it work effectively, it should be secured that the new resources are spent for human-centered poverty eradication and this is done in a democratic and accountable manner. Thus the role of civil society in the South is to campaign for more accountability in the use of debt relief resources, future loans and ODA.

3. On cancellation

Lidy Nacpil: Talking beyond amounts

Discussion notes compiled by Teppo Eskelinen

It is a fundamental starting point of Jubilee South, that the movement promotes a perspective on debt beyond mere amounts. Thus, not only dollar sums of debts owed to creditors, or percentage figures of national budgets used for debt repayments should be discussed, but rather wider issues concerning financial mechanisms and political power. Additionally, the context and nature of the debts have to be addressed.

A significant amount of public debt in the third world has come about as debts of private corporations, assured by the governments. This has led to a situation, in which governments, and eventually the citizens, have to pay the debts of millionaires and private corporations. Additionally, many debts were obtained to carry out projects which have been very damaging to the local population.

This leads to a problem of justice. The question should be addressed by asking when debt is legitimate, and when is it not? Jubilee South prefers to use the concept of legitimacy, and emphasises that legitimacy cannot be reduced to legality (i.e. laws can be unjust). Some core values of legitimacy and fairness are quite universally shared, and from the viewpoint of legitimacy, most people would agree that a significant number of technically legal transactions have been quite unfair. It should also be highlighted that the debt problem is not only a problem of undemocratic governments in the global South, but rather culpability should be extended to creditors. Often, the loans have been originally pushed by the creditors. Therefore it would be necessary to overturn the concept of moral hazard, which is presently used to refer to disincentives for the debtors, rather than creditors.

Power and conditionalities

The perspective on “talking beyond amounts” can be captured by arguing, that essentially debt is a matter of power, rather than a merely financial matter. Even in developing countries which are not very heavily indebted, such as India, neoliberal economic policies, conditionalities and projects can be pushed by the World Bank. These policies can have even more devastating effects than the demands for debt repayments.

For these reasons, Jubilee South is talking about 100 per cent debt cancellation to the South as its political goal. By setting this goal, a discourse on what countries "need" can be overturned. Debt relief based on a needs perspective is bound to keep the debt trap in existence.

The demand for 100 per cent cancellation is in itself an answer to the question, if political conditionalities ought to be attached to debt cancellation schemes. 100 per cent cancellation means unconditional cancellation. By making this argument, Jubilee South does not refer to hypothetical, but empirical and historical conditions.

There seems to be a certain difference in Southern and Northern activists' use of the word "conditionality". To a certain extent, this explains the controversy on conditionalities within the debt movement. In Jubilee South's rhetoric, conditionalities mean illegitimate conditionalities. The concept is not used to refer to financial terms in general, reports or transparency. Interest rates serve as example. It is undeniably a feature of any lending scheme that a loan comes with an interest. Yet quite another question regarding legitimacy is what level of interest rates is fair?

Issues like human rights have been often discussed as a justification for imposing conditionalities. Yet according to Jubilee South, creditors are not in a position to demand that human rights are respected, since they are part of the structures violating these rights. Handing over money and asking to stop killing is a very suspicious and ineffective way of bringing about political change.

Assessing arbitration

There are two schools of thought regarding debt arbitration. One holds that campaigning for an arbitration mechanism to be set up is the best way to proceed in debt cancellation. The other argues that arbitration should be accessible as an option, to be used in strategically relevant cases. Jubilee South leans generally towards the latter school of thought. Jubilee South does not place very high hopes in the possibility of creating an international debt arbitration system, and is therefore reluctant to put much energy into campaigning for such an institution. Yet Jubilee South admits that under certain conditions, and with very specific objectives, arbitration could be useful.

The prospective of a debt arbitration system is weak, since the interests of the debtors and creditors are too far apart. Setting up a functioning permanent arbitration system would presuppose that it is possible to have a position of equal power, in which power is stalemated. Or, alternatively, there should be truly neutral bod-

ies responsible for the arbitration. In this case, there would have to be a third party settling the conflict. Such third party arbiters are accepted only when there is confidence in the arbiter on both sides and a higher party is needed to appoint the arbiter. Who would that higher party be?

The only way to get the creditors to agree on setting up an arbitration body would be a major threat from the South, like a threat of repudiation. If moral arguments worked, this fight would have been won a long time ago.

As for the mechanisms, by which it is best to promote debt cancellation, Jubilee South takes it to depend on the situation. Individual Northern governments with a progressive agenda, such as Norway or Canada, can be very useful. But multilateral arenas should not be abandoned either, although at the moment G8 seems to be a dead end.

About solutions to the debt crisis

Jubilee South is very critical towards previous solutions offered to the debt crisis. In regard to for example the HIPC initiative, it is important to ask what the HIPC is doing to African economies? According to the WB, success for countries is implied by the fact that there are new, private creditors. But in practise, this means only that new loans are granted on different terms, to market rates, that is. For example the Philippines has "graduated" from the HIPC and takes now new, more expensive loans.

Similarly, the G8 deal should be analysed in the right context. According to the analysis of Jubilee South, the deal was pushed in order to make the countries benefiting from the scheme more investment-friendly to Northern capital, and to encourage global economic growth.

An important goal of the Jubilee South is to get Southern governments to repudiate on their debts. Sometimes, it seems that it could be even easier to pressure one's own government to repudiate, than to convince the creditors to cancel the debts. Additionally, a threat of repudiation makes it easier to pressure the Northern governments to go forward in debt cancellation.

Yet in some countries the primary focus has to be in building a movement, as demands appearing as too radical (such as repudiation) can sometimes be counterproductive. In any event, it is important to raise the issue of repudiation as an option for Southern governments.

Nevertheless, it is important to keep the discussion focused on illegitimate debt. The fight for wording is important. The concept indicates irresponsibility of the creditor. It is not enough to get debt cancellation, but there have to be clear reasons indicated for the cancellation. By using the concept of illegitimate debt, these reasons can be explicated.

An encouraging step forward has been the Norwegian government's decision to cancel the export credit debts of the poor countries on the basis of illegitimacy of these debts. In this case, the concept has been used for the first time as a reason for cancelling debts, and might provide further political assets.

Of course, the question, what are the criteria of illegitimate debts, is constantly debated. There are different definitions, some narrower, some broader. Yet even debating the issue is useful, as it keeps the concept on the agenda.

The concept of illegitimate debts leads also to a further question concerning its opposite: how could we formulate responsible principles for financing, i.e. legitimate debt? This issue needs to be kept in the agenda also, so that the campaign would have positive alternatives in addition to their political demands.

Global campaigning

Jubilee South wishes that the debt campaigns in the global North would let Southern campaigners advocate the issue. At the very least, the Northern campaigns should not act without letting the South know what they are advocating for. From the year 2000 onwards, there have been North-South meetings of the debt campaigns. In these meetings, it has been decided to have a global campaign on the legitimacy of debts. Targets of this campaign are governments both in the South and in the North, and the IFIs. The main task is to assure the governments that illegitimate debts are a problem.

Yet, the global campaign has its problems. To start with, the base of most Northern campaigns is very limited. It would be very valuable, if they could broaden their base. Additionally, many Northern campaigns do not really involve the migrant communities. In the South, on the other hand, the campaigners find it difficult to involve the labour movements to take up the issue of debt. It seems that the labour movements are too analytical, seeing certain issues as exclusively workers' issues, and others as exclusively debt issues, without analysing the larger economic context.

Mass demonstrations of power are needed. Nevertheless, the conditions in different countries vary, and governments are more or less vulnerable to the mass movements. Other than getting together a critical mass, it is vital to analyse what is the position of the institutions, and which ones are able to turn the tide. This brings the issue back to party politics. Jubilee South sees it as necessary to be involved in party politics, and sees it as somewhat strange, that some Northern campaigns are reluctant to get involved.

4. On debt arbitration

4.1. Oscar Ugarteche: The man made debt problem

Discussion notes compiled by

Katarina Sehm Patomäki and Ruby van der Wekken

The notion of “debt relief” has turned into an annual presentation of the rules of the game – only the headings differ. The IMF is the central motor for this activity. In reality, the IMF should have died following the Argentinean crisis in 2001. Argentina had followed the IMF advice all along and still sank. The director of research at the IMF wrote a book of the Argentinean catastrophe, and valued the price of the crisis to USD 60 billion. Leading up to the crisis, we had IMF prescribing wrong policies also to Asia, but here Malaysia did the opposite and came out of the crisis.

If we look back at the charts for the development of the Gross Domestic Product, GDP, per capita in Latin America and the USA, we note that Latin America grew faster until the crisis of 1980's. During 1990 - 2004, the gap between the growth in Latin America and the USA broadened even more. The process of economic reforms (stabilization policies of the 1980s) were the beginning of the change, and since their implementation, the economic growth of Latin American has been smaller than in the USA. Does this mean that economic reforms help in improving the rate of growth? Apparently not, as the data shows that the only Latin American country profiting from the reforms is Bolivia.

Let's turn to the African continent. Sub-Saharan Africa grew economically along with the USA until 1978-79. From this period onwards, the gap grew. The African problem is not the lack of water and the explosion of HIV/Aids but man-made economic policies. Africa follows the same Latin American trend. A case in point is Kenya, a country that did well until its economy was opened in 1990, and Kenya is the latest one to enter economic reform programs.

What are we then doing with the concept of “economic reform”? Through these actions, we take on the power to decide who will become poor or who will become rich. Following the implementation of these reforms, we turn around to say: we have a humanitarian problem. The top three consequences of these actions are migration, drug traffic, and massive corruption. All these consequences are man-made.

In the name of economic reforms

Put differently, the income gap between US and Latin America is small, but when we enter the debt crisis in the 1980s, the income gap broadens between the US and Latin America. In the 1990s we are then introduced to reforms or “liberalization” (the Washington Consensus), and we stagnate. Reforms did not improve the status of convergence. Rather, it is doing the opposite (according to data from the World Bank). We were told to learn about “export led growth”, which was supposed to mean that more export will generate more GDP.

This of course makes us ask why there is no relationship between increased export earnings and an increase in the GDP. The answer lies in double depreciation. To exemplify, let’s look at mining companies. Outsiders enter the economy, revalue the mine, keep on going without paying income or VAT tax. The situation in the energy sector is very similar. Agriculture is a sector that generates employment. But in Mexico, the employment generated through manufacturing is based on importing inputs tax free into a tax free zone. Here the inputs are put together and exported to US. The good generates no income tax, the company pays no profit tax, the work is conducted under no labour regulation. So in short, the contribution to Mexico’s economy is very small.

We were told that if we liberalize capital accounts, companies would run to us, invest, and make us grow (convergence theory). We were also told to privatize, and that following privatization, the rate of growth recovers. But assisted by economic reforms (especially in Mexico, Argentina), capital went in as foreign investments until 1998, when the Asian crisis emerged. The idea was to improve growth but this did not materialize. Rather, the South-North net flows were important. With the so called debt crisis in 1981, we were exporting capital to the developed world at the shocking rates. How strange, that we, in the developing world, are financing the developed world (the US mostly). And how is it that we are still growing? And in addition to financing the developed world, we pay out money as foreign remittances or foreign debt servicing. We are contributing to the US deficit, but where does our money come from?

Part of the problem of these policies is that they have not led to increasing GDP growth the trends of net resources have not been reversed. Our people are leaving our countries, as they immigrate to the developed world. What should be an export-led model is a people-export-led model. Latin America gets more money of exporting people than from money in their current account. This is unnecessary. We are exporting our future. This is an educated migration; educated people are the ones who migrate. As a result, in Europe, people do mediocre work with grand titles. The only ones who cannot migrate are those who have nothing. In the US,

40 per cent of university professors are migrants. This translates into the fact that in the developing world, we have this amount of less people training our own. And consequently, the quality of our training suffers.

This goes also for Africa: why is everyone leaving Africa on boats? Perhaps they are leaving on boats because these people have nowhere to go. They have no future where they are - but they may have a future where they are going. Of course, migration did not begin with colonialization in 1960s. But for instance in Latin America, migration occurred only during wars. Importantly, however, with migration, you change not only where you are going, but also where you are leaving. But today the consequences have become increasingly important: revenues, migration income, and migration remittances are staggering.

Towards a new financial code

This can also be expressed in another way: in the name of failed economic reforms, the poor finance the rich. The international economy system is unilateral, it is no longer international, and it is operating along a one sided interest. In the world, there are no international laws. The laws abided by are the laws of the UK and the US. Today, countries default but do not go bankrupt. Secondly, we see a legal vacuum where creditors operate. How have we arrived at this? This brings on both a practical and a theoretical question:

Firstly, what is the future role of the IMF? The IMF is experiencing a legitimacy crisis, following the Argentinean crisis in 2001, a credibility crisis due to the lack of results, and a financial crisis. Everybody is realizing that IMF policies do not work and everyone (with the exception of Turkey) have returned their money ahead of schedule or broken their contracts with the IMF. Consequently, until recently, IMF's annual budget was USD 3,5 billion. Today, it is USD 600 million. In other words, the annual budget of the IMF has shrunk by 85 per cent.

If we look back at the development of the institutional architecture we see that world after 1944 was linked to gold. Institutions such as the IMF (later the Paris Club) were set up. These were based on the same rule of gold, prices were in gold terms and remained stable. This period lasted till 1971 when the US said stop. Following this, in US dollar terms, the prices rocketed. The US devaluated the USD, which caused interest rate fluctuation. This was the background for the new scenario with new and more lenders operating under the conditions of commodity market disturbances. We saw a lot of lending, and a lot of cash. One day the cash found itself in higher interest rates and expansive fiscal policy with restrictive monetary policy. This led to a debt crisis and to an exported US economy crisis.

In short, what we often call the “debt crisis” is actually a crisis of US led rise of interests.

Since then, we have had the IMF, and are now seeing its collapse. The collapse of the IMF can be exemplified in the contraction of its annual budget. This evokes the following questions:

1. If the IMF suffers from a legitimacy crisis- what is the role of the IMF both now and in the future?
2. We must have something to prevent what has happened before. The massive US deficit makes us wonder what would happen if the oil market turned into a euro market? For instance President Hugo Chavez of Venezuela has not yet said this. But who knows, maybe Iran will be the one proposing it.
3. The Chinese and Russians have told the US treasury they wish to see the US deficit reduced and meanwhile, they will diversify their reserves (gold and euros in addition to the presently overly dominating dollars). If all central banks follow suit – what would happen then?
4. What if regional monetary funds would function?

Within the thinking of a new multilateral system, we should consider regional stabilization funds as part of this regime. Regional stabilization funds would serve as regional lenders of last resort. This proposal is of course also partly linked to the IMF crisis. I propose to set up an Asian monetary union based on the concept of the snake practiced in EU in 1990s, later leading to the euro. The demand of dollars goes down and we all get devalued. Do we need regional monetary funds? If we do not do it we are dead and if we do it, we are dead. The question is if we want a common monetary union or not. If yes, what about setting up a South American monetary union?

The initiative of a Banco del Sur is that it is a bank that is not built on proved failed economic policies. It is not about how much power an institution has but what the consequences of the power are.

An international board of arbitration

This leads us to the second and theoretical question, that of a new multilateral system. The system of debt negotiation has clearly favored one side, the side of the creditors. People are interested in money, but are they also interested in creating a problem with migration, drugs and corruption? As for the global architecture, there is definitely a need for a new multilateral system. The year 1944 was a long time ago. The currency and the army set the rule of law. Today the same pow-

ers cannot the city of Baghdad. They have utterly failed and lost their capacity to lead. The present law is useless, as you cannot use the law of the main debtor (the US). The world system requires different development banks. The so called development banks of today have forgotten development and done policies, we must return to development and rethink theories as the modern ones do not give the required results.

As for how to go about in setting up an international financial law, the first step is to have the law improved of by the UN General Assembly. The law could be copied from the UNCITRAL. In practice, the law would of course be discussed and negotiated a decade or so. The important thing is to kick off the discussions as soon as possible. The law must be a neutral law, meaning it cannot be the law of the debtor or creditor – the US law is not acceptable for this reason, since it is the main debtor in the world economy to date.

What happens in Bolivia happens now everywhere. Privatization processes have led to an end. In Bolivia and in 1977 adjustment policies were first tried. Because of Bolivia, the Paris Club 1976 changed its rules. Bolivian President Evo Morales' proposals on what to do with oil was not surprising: "We have to get rid of the tax benefits of the industry".

Alarmingly, no one knows what happens to the money acquired through privatization sell outs. Never in history have we sold our public assets at the present rate and extent. And no one says how much this is generating and where this money is now. This is why I call for an audit of fiscal accounts. This audit is the responsibility of the IMF and the World Bank, the World Bank being the master of privatizations. A company that restructures its debt gives an audit of accounts - but when governments do restructuring of its debts no one requires audits of its finances.

Debt is changing shape

Today, the debt has changed shape. Whereas before, the debt was largely a commercial bank debt, today, we see a new form of bonds. This of course makes us ask how to face creditors, the bond holders?

If we look back in history, we see that bond holders in the eighteenth century were subordinated to committees and arbitration boards. These committees and boards made pay back schedules to allow the economy to recover. They allowed for debt swaps and privatization. For instance, they bought privatized rail roads in exchange for debt papers.

Some, like Kunibert Raffer, suggest that countries go bankrupt. Such a procedure requires asset liquidation, that the management gets fired, and a thorough reorganization of the activities of the firm. But is this applicable to a state? No, certainly not.

This leads to the proposal of setting up a board of arbitration. The board of arbitration should be based on economic, cultural and social rights. In the world economy today, the US is the largest debtor but at the same time, the one dictating the rules. This is dangerous and bad and wrong. The size of the US deficit is unsustainable, unless you export inflation. The exporting of inflation would include a massive deflation of the dollar taking with it other dollar economies (such as Mexico). As I see it, in order to counter this, and in contrast, we need a new international financial code, a new currency system and a board of arbitration. In practice, this means that we would need a new monetary unit, and regional monetary funds copying the model of the Asian monetary fund.

The arbitration board must have the authority to do debt audits, to see if debts are illegitimate. There should also be no order of preference among or between the creditors. A precondition for a board of arbitration is that it must include all creditors and all participants must be treated equally. It should discuss the cash flow as one, not as four separate ones. To exemplify, Argentina got a 60 per cent reduction on its stock of debt and 40 per cent is untouched. Argentina can be sued for the remaining 40 per cent and the creditors will get this. Speaking like this about debt arbitration, we of course stumble at the issue of moral hazard – why help a country ceasing payments? Well, one argument is that you give a hand to a sinking country before it has sunk.

In budget terms, many countries pay half of their export earnings toward servicing and paying debt. In terms of definitions, we see a problem in linking debt to exports. Rather, the capability to service debt should be measured in a ratio of linking debt to taxes.

In many countries, we see a process of fiscal deficit followed by tighter monetary policy. Because of this, there is no way up for these economies. In the future, I see that Asia will delink from the world economy. What can you do? Nothing. Since in today's world, we have no boards of arbitration.

Forgiving debt is potentially good. But debt forgiving must be based on an economic plan. Bolivia serves as a good case study to show that IMF policies do not work. At the end of the day, debt relief does not necessarily mean anything. In 1985, Bolivia was supposed to get debt relief. In practice, Bolivia bought its commercial debt with a grant from the EU.

Bolivia was granted 90 per cent of its commercial bank debt (85 per cent of its total debt). Soon after, Bolivia borrowed from multilateral banks. It agreed on the Toronto terms with the Club of Rome. Bolivia tried to reduce debt, but borrowed both domestically and multilaterally. As a consequence, today, Bolivia owes 90 per cent of its exports domestically and the Interamerican Development Bank is about to grant Bolivia debt relief.

This comes with the lesson that debt reduction without economic policy does not function, we learn this from Bolivia: “You cannot do economic remote control management from the outside.”

Oscar Ugarteche speaking on 16 November 2006 at the University of Tampere.

4.2. Jorge Marchini: The debt problem – enforced socialism

*Discussion notes compiled by
Katarina Sehm Patomäki and Ruby van der Wekken*

In these discussions on the debt problem I think there is one important aspect that is not always credited with the attention it deserves: the debtor’s situation. Today, no one speaks of debt. All business analyses speak of how the economy and GDP figures keeps growing, commodity prices keep climbing higher (oil, of course, but also agriculture products), and the interest rates remain low. This holds also for the case of Africa.

But there are two particular things about GDP. Firstly, if I want to receive my personal share of the GDP, I cannot do so. The GDP is an average, a hypothetical sum I cannot touch. Secondly, when things go bad in our economy, we all pay for it. This is what I mean by speaking about a special kind of socialism. In the situation of the debt problem, I would speak of a “socialization of debt”. Assets are private, but debts are public, meaning that we the peoples pay for all.

So, once a country had fallen into a debt trap, what is the prescription for recovery? It seems that recently many countries have seen that they prefer to pay off their debt to the IMF. We see that Brazil, Argentina, Mexico have paid off their IMF debt. Today Thailand finds itself almost alone in not having paid off its debts to the IMF.

But along side these changes and the change in the nature of debt, we see also other situations evolve. For instance, there is a change going on in the macilladoras. As Oscar Ugarteche explains, these free trade zones bring in nothing but work. This does not always hold anymore. Too many times we have seen that we have to pay when things go well, and when things do not go OK we still have to pay. Also in Argentina, the gap between the haves and have-nots grows wider, and we do not seem to recover the levels we had before the crisis started. Young people everywhere lack hope. The intelligent people all emigrate. Our net movements of capital are negative, and when we bring in money, we have to pay out even more.

The lesson from Argentina

As concerns the debt crises, they all follow the same pattern: euphoria, expansion, crisis, recession, social problems, and finally we are back in the eurofia mode again. Every debt crisis sees a speculative bubble followed by a crisis. The case of Argentina in 1998 is particularly striking. Our President Carlos Menem was invited to the annual meeting of the IMF and the World Bank presided by US President Bill Clinton. Menem was asked how he was going to make Argentina grow. Menem explained how, everyone applauded and then the crisis followed. Argentina was referred to as the “model country” and the decade of the 1990s was supposed to be the “period of renewal”. We were told that “we were not able to place the order in the market” which is the justification for amending our economies, or in other words, the strategy of implementing neoliberalism in our countries. The Interamerican Development Bank, the IDB, called for a third wave of investments, referring to more than 40 years of economic expansion. Anne Krueger of the IMF praised Argentina, saying that its progress is remarkable, and that it is important and urgent to consolidate this.

In practice, what happened in Argentina was that first, the unemployment started to grow. The concentration of income led to internal problems. The period of transfer led to internationalization, where foreign money flooded in. This period ended in 2001 in a dramatic explosion of a crisis. The crisis set off a domino effect, causing severe problems in many neighboring countries.

The year of 2001 can also be called the end of the culture of the promise of neoliberalism in Argentina. In a wider perspective, I think one can say that the political

mood changed in Latin America. This is shown by the subsequent rise of Hugo Chavez in Venezuela and Lula in Brazil, recently followed by others. Following upon these changes in regimes, many countries have paid back their debt to the IMF. Put differently, our governments are not the same as in 1990s. Today our governments speak against neoliberalism. The failure of neoliberalism opens up the opportunity to discuss political economy (dependency theory).

The Argentinean debt crisis was a crisis of USD 80 billion outstanding debt. Argentina paid 40 per cent on new conditions but USD 20 billion are still under trial. If Argentina defaulted, it could never enter the financial markets again. But as a direct consequence of the crisis, today the cost of money for Argentina is three times that of the money in the US.

Audits and transparency

As for the largest debtor in the world, the debt of the US amounts today to USD 800 billion. Interestingly, according to the Bank of International Settlements, BIS, if you compare the levels of debt and the level of placements abroad by our natives, the amount of money is roughly similar. While the public and official debt is for all of us to pay, the money is placed overseas. The funds are mostly placed in US bonds. An important aspect of the debt issue is that the debt problem can be redressed as a cultural fight.

There is a large common understanding that the IMF is a disaster. Therefore, it would be important to create “the web pages of the debt”, pages which are not hosted by the IMF or the World Bank. In addition, it could prove crucial to create funds outside of the IMF that would be reserve money into another account controlled by the central banks of the region invested into the currencies of the region. This should prevent the US dollar crisis from hitting us and make lending if need arises easier. This has been done by the Asians and should be done by African, the Middle East, Latin Americans and in other places.

A key issue is to prioritize the financing of real projects as opposed to financial movements. Secondly, developing countries should be given grants instead of loans. These issues deserve to be carefully studied, but a key consideration is the issue of transparency. The operations of the international banks must be transparent. The present tune of “banking is important and must therefore be secret” does not hold. Transparency is of course also important in the prevention of corruption. Corruption is a big problem in Latin America.

Today, we live in a period of uncertainty. In 1991, the US created an idea of increasing interest rates. This imposed new conditions of the world economy. These

conditions damaged all contracts and reflected on financial instruments placed at flexible interest rates.

But when you are a country in debt, what can you do? Well, first you must define who the creditors are. Today also the pension funds are privatized, which adds to the mosaic. Audits are necessary, and we need different levels of audits. The speculators play with one condition only and that is the condition of lack of responsibility. High yields lead to high risk and uncertain risk leads to crisis of debt. An explosion of debt is always followed by political explosion.

Towards a new agenda

But as I said, what can be done? You ask debtors to limit the available national education, and limit conditions of living of the people. In turn, this limits the possibilities to ever pay you back. The situation is critical or perhaps even impossible.

When Argentina defaulted, it renegotiated its debts. When the default actualized, the Club of Creditors formed immediately. Germany, France, Italy were the dragons. But in contrast, the world lacks a Club of Debtors. This once again leads me to asking what the debt is made of and by whom?

Until today, the debt has been paid for by everyone on the expense of more taxes and less education for the national population of the indebted country. Perhaps it is time to start playing along new rules. Rather, let us charge the responsible. In Argentina, also banks are held responsible for bad debt to private persons. What if we implemented the same rules internationally? Why don't we develop new mechanisms to rely on in problem situations? Arbitrating the debt of developing countries would serve as one initiative.

Today, we see a number of world conditions proposing change in the economic system. Firstly, the central role of the US in economic policy has changed. The financial conditions are reversed, whereas the US has traditionally been a big creditor, it is today the big debtor. Many countries have big foreign reserves, in US dollars. In fact, as much as 75 per cent of the world's reserves are invested in developing countries. In addition to the changing scenery, we have a general surplus of capital. But where can I protect assets in reserves? Let us learn from the past and avoid repeating the same mistakes. The macro economic monetary policies and multilateral framework must be rethought. We should think about developing our common currency and to have a common economic framework.

Another addition to the research agenda is the question of opportunities of labor and regressive reforms. The role of a fiscal surplus must be stressed, in the South

we have primary surplus. This means that we can pay our payments and still have surplus.

Capital flows are dangerous and can change the world in 15 days. Should we put restrictions on capital flows? It may also be worth considering if we want to we want to regulate how much payments migrates can send back home.

Finally, building on my analysis, I would like to share our thinking on two initiatives, the Banco del Sur, and the International Observatory of Debt. As for the Banco del Sur, a regional lender of last resort, we have recently launched a process of sending out questionnaires on how to organize a Banco del Sur. The international Debt Observatory is a common header for many organizations and movements who share a concern about the debt situation and who aim at working together.

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This publication is the result of a project Attac Finland and NIGD conducted in 2006. The aim of the project was to map and analyze the different streams of proposals within civil society for solving the debt problem. Further, we wished to see if and how these proposals differed. And thirdly and most importantly, we aimed at raising discussions on ways forward in developing new, solid, and forceful global campaigns for solving the debt problem.

This paper includes contributions by Saul Banda, Taoufik Ben Abdallah, Jorge Marchini, Lidy Nacpil, Odour Ong'wen, and Oscar Ugarteche, all leading figures in the Southern debt movements.

