Election Year Brings Competing Debt Relief Proposals

Candidates Seeking Multilateral Debt Cancellation for the Poorest Countries

October 1, 2004 | By Todd Tucker

People looking to get excited about American democracy in an election year needn't look further than the current proposals on poor country debt relief from multilateral institutions being put forward by the presidential campaigns. This has gone from an issue that concerned only a few committed activists to one that engages the political mainstream.

The Bush administration's initial proposal as reported in the press was the first to offer specifics, offering 100% debt cancellation for around 30 nations considered "Highly Indebted Poor Countries" (HIPC).[1] Most of this would be funded through the World Bank and International Monetary Fund (IMF)'s existing gold and cash reserves. The President's proposal would also convert World Bank loans to interest-free grants, according to reports from recent civil society meetings with the U.S. Treasury Department.

Not to be outdone, Senator John Kerry recently called attention to his own campaign's proposal, which calls for the same end goal on debt but includes more countries. The Kerry initiative also notes that deeper debt cancellation "should not come at the expense of future foreign aid flows to poor countries" and suggests such measures can be made through "modifying the [existing] Enhanced Highly Indebted Poor Countries Initiative".[2]

Support from other G-7 countries is needed for either proposal to become policy. Recent press reports suggest that there may be some support in Europe, as UK Chancellor of the Exchequer Gordon Brown backed the goal of poor country debt cancellation, and suggested that British taxpayers would foot 10% of the bill.[3] Whatever the outcome, the topic of debt cancellation will continue to loom large in the coming months.

The Case for Debt Cancellation

Religious leaders, rock stars, and even some economists have long called for deeper debt relief for the poorest countries. Many of these are in Sub-Saharan Africa, which has experienced a dramatic decline in living standards since 1980. While the region's economies grew 36% in per capita terms in the period from 1960-80; they actually shrank 15% in the subsequent twenty years.[4] In the poorest countries, progress in increasing life expectancy, reducing infant and child morality, and increasing the rate of growth of primary, secondary, and tertiary (post-secondary) school enrollment was also slower for the second period.[5]

The HIV-AIDS pandemic has clearly exacerbated these problems. Nearly 2.2 million Sub-Saharans died from HIV-AIDS related infections in 2003, or nearly 75% of the world total for that year.[6]

Addressing the pandemic has been impeded as countries have been forced to send scarce resources to rich countries in the form of debt and other payments despite their desperate social conditions.

Contrary to the standard prediction of economic theory, that capital will flow from capital-abundant countries in the North to capital-scarce countries in the South where it will get a higher return, developing countries are actually net capital exporters to rich countries in today's global economy. In 2000, the river of capital was flowing upstream—from South to North—to the tune of more than $43.5 billion, or 0.8% of the Gross Domestic Product (GDP) of developing countries. When you consider interest and dividend payments as well[7], the developing world as a whole would have a surplus equal to 2.9 percent of its GDP in the absence of such flows. Sub-Saharan Africa would have a whopping surplus equal to 4.4% of its GDP, if not for these payments.[8]

Payments to the World Bank and IMF exacerbate some of these tendencies. Economist Jeff Sachs recently said, "If the World Bank thinks it's actually doing any good, collecting money from Malawi so that it can re-lend money to Malawi, then it's misunderstood".[9] While many rich countries have already cancelled the bi-lateral debts owed them by poor countries, the World Bank and IMF have been slower to get on board. The institutions' current HIPC initiative has only reduced debt levels by about a third, and merely seeks to reduce the countries' debts to "manageable levels", tied to their export levels.[10] To make matters worse, the harmful policy conditions that poor countries had to comply with to receive loans from the institutions are now also being used as a condition for debt reduction.[11]

Looking Forward

As G-7 finance ministers discuss the various proposals, they will consider how much debt cancellation the World Bank and IMF can afford, and how this will be financed.

Some European governments and organizations remain concerned that debt cancellation will hinder the ability of the international financial institutions (IFIs) to operate.[12] The New Economics Foundation and other researchers indicate that cancellation for the HIPC countries is not only affordable but well

within the reach of the institutions' own gold and money reserves held in abeyance for just such a conjuncture.[13] In other words, affordable debt cancellation can be achieved without developed country taxpayers having to foot the bill for the IFIs' past mistakes, and without hindering the flow of future resources to poor countries.

Existing relief measures demonstrate that poor countries direct more money to health and education when their debt levels are reduced.[14] If both U.S. presidential candidates can agree to finish what was started on debt cancellation, then so should the rest of the G-7. Anything less would be in bad faith… and bad economics.

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END NOTES

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2 "John Kerry's Plan for Winning the War on Terror," Kerry-Edwards Campaign 2004, September 24, 2004. http://www.johnkerry.com/pdf/pr_2004_0924_2.pdf

3 Cowell, Alan, "Britain Offering to Pay Off 10% of Third World Debt," *The New York Times*, Sept. 26, 2004.

4 Weisbrot, Mark; Robert Naiman and Joyce Kim, "The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization," Center for Economic and Policy Research, Nov. 2000. http://www.cepr.net/IMF/emperor.pdf

5 Weisbrot, Mark; Dean Baker, Egor Kraev and Judy Chen, "The Scorecard on Globalization 1980-2000: Twenty Years of Diminished Progress," Center for Economic and Policy Research, July 2001. http://www.cepr.net/globalization/Scorecard.pdf

6 "Investing in a Comprehensive Health Sector Response to HIV-AIDS: Scaling Up Treatment and Accelerating Prevention," World Health Organization, 2004. http://www.who.int/3by5/en/HIV_AIDSplan.pdf

7 In other words, if poor and rich countries mutually terminated debt- and dividend-related transfers—so that the North made no new loans and the South ceased to pay interest—then the South would have billions dollars more of capital than they have today. (The actual measure used in the paper, referenced in footnote 8 below, is "net income," which is a proxy for "net capital income," for which there is scarce data for most countries. "Net income"—sometimes called "net factor income"—includes capital income flows such as interest and dividend payments, but also includes employee compensation paid to nonresident workers. This, however, is a small share of the total. Greater explanation is provided in the paper.)

8 Morrissey, Monique, and Dean Baker, "When Rivers Flow Upstream: International Capital Movements in the Era of Globalization," Center for Economic and Policy Research: Washington, DC, March 2003. http://www.cepr.net/Capital_flows.htm

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11 Maderly, John; and Faisal Islam, "The 'reformed' IMF stands accused of changing only its jargon," *The Observer* (UK). Oct. 1, 2000. For countries to qualify for HIPC debt reduction, they must complete a Poverty Reduction Strategy Paper, which contains many of the same conditions as structural adjustment loans. For a case study of PRSP conditions in Uganda, see Warren Nyamugasira and Rick Rowden, "New Strategies, Old Loan Conditions: Do the IMF and World Bank Loans Support Countries' Poverty Reduction Strategies—The Case of Uganda," April 2002. Available at http://www.actionaidusa.org/pdf/Uganda%20New%20strategies,%20old%20loans.pdf. Also, for a case study on the Sri Lankan PRSP, see Kar, Debayani, "The IMF-World Bank Plan for Sri Lanka: Will it Help or Hinder South Asian Success?" Center for Economic and Policy Research, April 2003. http://www.cepr.net/Sri_Lanka.pdf.

12 Blustein, Paul, "U.S. Wants to Cancel Poorest Nations' Debt; Other Countries Concerned Proposal May Leave Global Lenders Short of Money," *The Washington Post*, Sept. 14, 2004.

13 Kapoor, Sony, "Can the World Bank and IMF Afford 100% Debt Cancellation?" New Economics Foundation, Sept. 2003. Available at http://www.debtireland.org/resources/Can-the-World-Bank-and-IMF-Cancel-debt.htm. Forthcoming research from the Foundation suggests that the selling of 5 million ounces of IMF gold every year for the next twenty years would not have a significant impact on the gold market either, another objection sometimes raised by policymakers. Kapoor, Sony, "The IMF, Gold Sales, and Multilateral Debt Cancellation," New Economics Foundation, Sept. 2004, Forthcoming.

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