

LIFE, DEBT AND JUBILEE

Catholic Bishops' Low Week Statement on Poverty Elimination and Debt Remission

Introduction

On the eve of the Great Jubilee, remission of the unpayable debt of the poorest and most indebted countries has ceased to be an impossible ideal and has become a practical necessity in order to tackle global poverty. Recent developments, including the news that the German and British governments will be working together to secure substantial debt reduction for the most indebted countries, are encouraging.

But without the commitment and vision of all leaders of the rich countries debt reduction could still be whittled down to too little, too late for too few. Additional resources for debt relief will be needed if the poor of the indebted countries are to have a new start in the new millennium. These resources must not be siphoned from already stretched aid budgets. The governments of rich creditor nations and the international financial institutions (the International Monetary Fund and the World Bank) must now make a clear commitment that they will provide these additional funds. This is not just another international development initiative but a once-in-a-generation opportunity to break the chains of debt which shackle the hopes of the world's poorest people.

Hopes for renewal

2. Two thousand years after the birth of Christ there can be no better way of expressing our hopes for renewal in our fractured world. In fulfilment of the Old Testament promises of Jubilee, Christ announced good news to the poor and the release of prisoners, and proclaimed "the year of the Lord's favour." Today it falls to us, the peoples of the rich countries, and particularly to the governments acting in our name, to honour in some measure this majestic promise to the poor and the enslaved.

For this is a world in which the gap between the poorest and the richest has become a chasm; a world in which the global market is tilting steadily and decisively against the poorest nations; a world in which lives are being sacrificed daily to debt obligations acquired by past generations and past leaders in sometimes the most dubious of circumstances. Bad luck, mismanagement, adverse international markets and excessive optimism, on the part of lenders as well as borrowers, have rendered many of these debts unpayable. But military spending, inappropriate prestige projects and simple corruption – alongside legitimate expenditures – also lie beneath the cold calculation of today's arrears and interest. It is time now to acknowledge this truth and give the poorest of the poor a new start.

Abomination of poverty

3. The poverty in which a fifth of the world's population lives and dies is an abomination. Each time we say 'Our Father' we proclaim our sister- and brotherhood with all humanity yet more than one billion people can expect only a life of gnawing hunger and death at an early age from malnutrition and preventable disease. And this happens in a world of plenty in which, according to the United Nations, the combined wealth – a million million dollars – of the world's 225 richest people is equal to the annual income of the poorest 47 per cent of the world's people.ⁱ The \$50 billion of debt that the Minister for International Development and the Chancellor of the Exchequer want to see written off by the year 2000ⁱⁱ is less than 10 per cent of the annual military expenditures of the world's most developed countries;ⁱⁱⁱ and less than an eighth of world-wide annual expenditure on advertising.^{iv}

Commitment of the international community

4. The international community has agreed ambitious development and poverty eradication targets, including the halving of the number of people living in extreme poverty, and has set 2015 as the year by which they should be achieved. Without real commitment to poverty elimination on the part of donor and debtor governments alike, even full debt cancellation will be ineffective. Debt, of course, is not the only cause of poverty in developing countries and its cancellation is not a panacea for their ills; but debt remission, full cancellation in the most extreme cases, is a necessary condition for these targets to be met.

5. Commitment on the part of donor governments will be measured not only by debt remission but by increased flows of poverty-focused development assistance. We will have gained nothing if we achieve debt remission only to see development programmes fail because essential international aid has been cut back. In 1997 development assistance provided by rich countries declined by 14 per cent to \$48 billion.^v In these circumstances, the British government's goal of achieving a total of \$60 billion in multilateral development assistance by the year 2000 is a challenge to donor governments around the world. We welcome the increase in British aid to over £3 billion after years of decline.

It is not enough, however, simply to call for increased assistance by governments. Private citizens also have a role to play. Calls for generosity on the part of governments should be backed by personal commitment. In introducing the Millennium Gift Aid scheme the government have increased the value of personal donations and at the same time laid down an equally difficult challenge to private citizens: to treble the quantity of aid provided by development charities within two years.^{vi}

Proper use of funds

6. Debt remission and increased aid on the part of donor governments must be matched by commitment on the part of debtor governments to ensure that the additional funds made available are used only in social and development programmes which have an impact on poverty. This is their crucial role in the achievement of the

international targets. There have been so many revelations of misuse of funds and corruption in financial transactions with developing countries, sometimes on an epic scale, that people are suspicious of initiatives that appear to throw good money after bad.

This is a genuine concern. The worst outcome of debt cancellation would be the enrichment of wealthy elites or increased military spending while the lives of the poor were left untouched. How governments use the additional funds must be closely monitored. Debt remission together with increased development assistance must be based on a three-sided partnership between rich governments, poor governments and civil society that will oversee and report on the use of these resources.

Poverty reduction via debt reduction

7. The 2015 targets serve as a reminder that the purpose of debt reduction is poverty reduction - and that debt reduction is only one element in a task requiring sustained commitment from both north and south. Setting debt and increased aid in the context of the anti-poverty targets of 2015, however, does nothing to diminish the urgency of the need for debt cancellation. The meeting of the leaders of the G8 countries in Cologne in June, together with the autumn meetings of the IMF and World Bank, provides a unique opportunity to remove the obstacle of unpayable debt blocking the path to the achievement of these targets.^{vii} It is on debt, therefore, that we must concentrate in the coming months.

8. Debt and its forgiveness have a special place in the Bible and in Christian teaching. The concept of Jubilee in the Bible is that of restoration: of erasing debts, of setting slaves free and, once every fifty years, of returning land to its original owners. In setting out the Jubilee theme in his apostolic letter, Pope John Paul II says “the Jubilee Year was meant to restore social justice” and “the social doctrine of the Church which has developed greatly particularly after the Encyclical *Rerum Novarum* a hundred years ago is rooted in the tradition of the Jubilee Year”^{viii}

The Pope goes on to advocate a substantial reduction, “if not outright cancellation of international debt which seriously threatens the future of many nations”,^{ix} and has urged Christians, in the light of the imminent Great Jubilee, to raise their voices on behalf of the world's poor by taking action on international debt.^x This action is rooted in the concept of solidarity which recognises interdependence in economic as well as cultural, political and religious terms. Solidarity, as the Pope says, “is not . . . a feeling of vague compassion or shallow distress at the misfortunes of so many people . . . On the contrary it is a firm and persevering determination to commit oneself to the common good; that is to say, to the good of all and of each individual because we are all really responsible for all.”^{xi}

Unpayable debts

9. What are unpayable debts? They are debts that grow (by way of the capitalisation of interest) faster than the debtor country's capacity to service them. Therefore they are not steadily reduced as repayments are made, but grow and grow

as unpaid interest mounts and is added to the original sums already owed. They are debts on which lifetimes of hard work and dutiful payments will make no impression. They are debts that erode a government's capacity to provide even the most basic health and education services. They are debts that see children turned away from school because their parents cannot scrape together the fees on which the teachers themselves depend. They are debts that see mothers turned away from dispensaries because they cannot afford the price of even the most basic medicine. Such debts impose the heaviest burden on those who are the least responsible for their creation.

10. Nearly every highly indebted country has seen its debts grow out of all proportion to its capacity to keep up with interest payments.^{xii} And everywhere debt service payments made by governments to their creditors outstrip by far expenditure on essential social services. For these countries the maintenance of the present system in which new loans and grants are recycled into debt service maintains a fiction that loans are 'performing' but does nothing to help these countries escape the crushing burden of their debt.

Adjusting action to reach targets

11. We will soon be celebrating the new millennium with all manner of parties and projects. It is imperative that the rich countries, when they meet in June, agree debt remission that will begin to make a difference to the lives of the poor within months, so that for them the millennium can be a fresh start. The Highly Indebted Poor Countries (HIPC) initiative of the IMF and the World Bank needs far-reaching amendment, in terms of the amount of debt reduction offered, its conditions and its timeframe, if it is to achieve this.^{xiii}

The HIPC initiative, as it currently operates, requires highly indebted countries to complete up to six years' stringent financial management and market-oriented economic reforms, before any debt reduction can be considered. And then debt reduction is calculated only on the basis of what is considered sustainable after export earnings and imports are taken into account. It is a balance sheet exercise which ignores the backlog of neglect and poverty that has accumulated over the years and which must be tackled if the poor are to face the new millennium with even modest hopes. Rather than a reward for strict budgetary discipline and austerity, debt reduction should be allocated in advance for agreed programmes of health, education and investment that will provide livelihoods and productive employment.

12. The measures we advocate will not end all international debt. That would be neither practical nor desirable. They are, however, the minimum required for countries which, if they were commercial companies, would long ago have been declared bankrupt. Some countries, like Malawi, Mozambique and Tanzania, are so indebted and so poor that they should receive 100 per cent debt remission. Others will benefit from significantly reduced debt service payments.

Debt remission paves the way forward

13. Debt remission on this scale cannot be seen only as a remedy for past mistakes and misfortunes. It is a forward-looking measure and a necessary precondition for sound and equitable future development in the most indebted countries. For this reason, the international community must ensure that the mistakes – on the part of lenders as well as borrowers – which helped to heap up this mountain of unpayable debt are not repeated. Debtor countries must have in place the capacity to manage their debts and thus ensure that future borrowings do not reach an unsustainable level. This responsibility should be shared with the creditors who authorise the loans.^{xiv}

Agreements and conditions attached to new loans must therefore be open to scrutiny by civil society, beyond the small circle of officials and politicians in lending institutions and borrowing governments. Transparency in the negotiation of new loans will help to make sure that they cannot be used for corrupt purposes and should also prevent international funds being used for flawed development projects. Restraint and responsibility on the part of rich countries in arms sales, which should be regulated by international agreement, would not only serve to reduce the loss of life and damage inflicted by conflict but would also help to limit new indebtedness on the part of poor countries.

Ethical rich nations?

14. Unpayable debt is owed almost entirely to northern governments, including the British government, and to the World Bank and the IMF in which the richest nations have majority voting power.^{xv} Thus the decision regarding how much debt should be cancelled and on what terms is entirely within the hands of the richest nations. That debt remission should now be at the top of the agenda of the Finance Ministers of the richest countries is a tribute to the campaign on international debt led by the Churches – and not least our own Catholic agencies, CAFOD, SCIAF and Trócaire^{xvi} – and Jubilee 2000, and supported by millions of people throughout the world. This support sends a strong message to politicians: people want the celebration of the dawning of the new millennium to have a strong ethical dimension.

15. All this effort, however, will fail if the rich nations together with the IMF and the World Bank do not make available sufficient resources to remit these unpayable debts. The \$50 billion debt write-off proposed by the United Kingdom will not happen without the sale of gold stocks held by the IMF. Authoritative studies have shown that the IMF can afford to dispose of some of its gold stocks without jeopardising its status as international lender of last resort or the security of the world financial system.^{xvii} Financial security is only a part of a wider concept of security. We believe that global security must be anchored in global solidarity and is fundamentally flawed if it is seen as compatible with a world in which more than a fifth of humanity are denied the opportunity to satisfy their most basic needs.^{xviii}

Can the poor celebrate?

16. Debt remission will not on its own bring about an end to poverty. However by freeing those scarce resources which at present are siphoned off from vitally

important social programmes into the seemingly endless cycle of debt repayment, remission can open the door to a better life for millions of the world's poorest people.

On the eve of the new millennium we call on Christians everywhere to renew their prayers and their efforts to ensure that the leaders of the rich nations, the IMF and the World Bank act to remit these unpayable debts. In the Great Jubilee, we are celebrating two thousand years of Jesus Christ, the incarnation of God in our world, who brought Good News to the poor. Debt remission is a fitting way to make sure that this Jubilee is proclaimed for the poor, and will be celebrated by the poor.

March 1999

ⁱ UNDP Human Development Report, 1998, p.30. The figures compare wealth and income, so strictly speaking not like with like: but they are suggestive nevertheless.

ⁱⁱ *The Guardian* – 22 02 99

ⁱⁱⁱ UNDP Human Development Report, 1998. The total annual defence expenditure of the most developed countries in 1996 was \$ 533,510 million. The 'most developed' countries are those classified by the UNDP as having 'High Human Development'. They are: Austria, Australia, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malta, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom, USA

^{iv} *ibid.*

^v UNDP Human Development Report 1998 and H.M. Treasury Press Release 42/99, 3 March 99

^{vi} .Aid agencies currently donate a total of \$330 million. (H.M. Treasury Press Release 42/99, 3 March 99)

^{vii} The G8 countries are Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States of America.

^{viii} *Tertio Millennio Adveniente*, Catholic Truth Society, London, 1994, para 13, p. 21

^{ix} .*ibid.* para 51, p.63

^x Pope John Paul II, *Ecclesia in America*, *L'Osservatore Romano* 4-27 January 1999, para 59

^{xi} *Sollicitudo Rei Socialis* para 38.4, quoted in *The Common Good and the Catholic Church's Social Teaching*, Catholic Bishops' Conference of England and Wales, 1997, p.14

^{xii} In 1980, for example, at the onset of the debt crisis, Zambia's total debt was \$3.6 billion and the exports on which it depended to service the debt were \$1.6 billion a year. Today Zambia's debt has climbed to over \$7 billion while exports are down to \$1.3 billion a year. This is a consequence not only of unpaid interest which has been added to the principal owed over the years but also of new debts acquired in the intervening years. Even if more recent debts have been on more favourable terms, the burden is unsustainable.

^{xiii} The Highly Indebted Poor Countries recognised by the World Bank are: Uganda, Bolivia, Côte D'Ivoire, Mozambique, Guyana, Ethiopia, Cameroon, Guinea Bissau, Nicaragua, Congo, Madagascar, Niger, Tanzania, Zambia, Burundi, Rwanda, Sao Tome, Angola, Benin, Burkina Faso, Central African Republic, Chad, Congo – Brazzaville, Equatorial Guinea, Ghana, Honduras, Kenya, Laos, Liberia, Mali, Mauritania, Burma, Nigeria, Senegal, Somalia, Sudan, Togo, Vietnam, Yemen, Democratic Republic of Congo (formerly Zaire).

^{xiv} In this regard we note the positive contribution eighteen months ago of the Chancellor of the Exchequer Gordon Brown who, in the case of HIPC countries, restricted UK government guarantees for export credit loans to productive expenditures only. In other words, arms exporters can no longer obtain ECGD (Export Credit Guarantee Department) guarantees for exports to HIPC countries.

^{xv} The debt owed to northern governments is of two kinds: old aid loans (usually on soft terms and, in the UK case, largely remitted already) and old export credits, guaranteed by northern governments which had their guarantees called in and so became creditors by default. Debts of this second kind are form the majority of the burden.

^{xvi} In February 1999 the Irish Catholic Bishops' Conference issued a statement 'Put Life before Debt', which makes a strong call for debt remission and commends the Jubilee 2000 campaign in Ireland.

^{xvii} Tony Killick, 'Solving the Multilateral Debt Problem: Reconciling Relief with Acceptability', Commonwealth Secretariat, November 1995

^{xviii} The Pope has called for an ethic of solidarity, which is needed 'if participation, economic growth, and a just distribution of goods are to characterize the future of humanity.' (Speech to the Fiftieth General Assembly of the United Nations Organisation – 5 October 1995)