



FACE...

Debt and Jubilee: Assistance, Not Forgiveness¹

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HEAVILY INDEBTED COUNTRIES SPEND MORE ON DEBT SERVICING THAN THEY do on their social sectors such as education and health. Therefore, the argument goes, the debt of the highly indebted countries should be forgiven. Last year at the G8 summit of leading nations, this view was sanctified by the official communiqué. This year, it was reiterated with a resolve to accelerate forgiveness.

It is difficult to understand why sympathizers with the poor in developing countries focus on this issue. Most countries that are heavily indebted have over- and misspent on defense, perks for high officials, and subsidies predominantly benefiting upper-income groups. At the same time, corruption or illegal transfers to the powerful combined with failure to collect taxes have led to large fiscal deficits. Typically, expenditures on education and health for the poor have been low. Past assistance has therefore largely been allocated to items that have not had high development payoffs. Moreover, many, if not most, of the heavily indebted poor countries have not, in fact, been servicing their debts voluntarily: these debts have either been rolled over or are in arrears. So debt forgiveness would not release resources when debt-servicing obligations would not have been paid anyway. Even when resources are released, unless there is a radical change from past behavior on the part of the debtors, their priorities for the use of released resources are not likely to be on education, health, or other expenditures that will enable the poor to improve their lot.

Even the World Bank, in its report in 2000 on global development finance, questioned whether debt relief would be translated into increased social spending, since in the past external transfers were only weakly associated with social spending. Proponents of debt relief argue that there is no reason to assume that past behavior will be repeated in the future and that, in any case, conditions placed on relief would ensure that the released resources are spent on social sectors. We have

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TO FACE

Debt and Jubilee: The Promise of Relief

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THE JUBILEE 2000/USA CAMPAIGN HAS CHALKED UP SOME REMARKABLE achievements, helping thousands of Americans understand the problems of international debt, poverty, development, and globalization.

By the end of 2000 this broad-based coalition of grassroots activists, secular and faith-based groups, and religious leaders—from Pope Paul VI to Pat Robertson—could celebrate bipartisan support in Congress to cancel 100% of the bilateral debt of more than thirty heavily indebted poor countries and a commitment to partially fund the multilateral debts owed by these countries to international financial institutions. U.S. funding for this initiative represents a more than tenfold increase in the amount allocated for debt relief in the foreign aid budget.

By providing funding for debt relief, Congress:

- helped extend free schooling in Honduras, Tanzania, and Benin
- helped hire more teachers and pay for classrooms and textbooks in Uganda, which now has every child in grade school
- helped Tanzania, Senegal, and Burkina Faso afford increased spending on HIV/AIDS prevention thus slowing the spread of the worst epidemic in the world
- helped free up from other rich countries, as well as international financial institutions, \$28 for every \$1 contributed by U.S. taxpayers
- helped cut the debt payments of the poorest countries by one third.

As the 107th Congress sets about its work, however, we must remind them that the work for a “definitive debt cancellation” is far from done. The unfinished agenda, as described by the Jubilee 2000/USA Campaign, includes the following:

- Congress must approve \$375 million in the next two years in order to fulfill the U.S.’s existing commitment to international debt relief.
- Although most major creditor governments are committed to 100% bilateral debt cancellation for heavily indebted poor countries, the international financial institutions, like the World Bank and International Monetary Fund, are offering

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not seen any convincing argument to suggest that, unlike in the past, conditions would be credibly and strictly enforced this time.

Indeed, it would make far more sense to allocate resources directly to areas such as education and health through non-governmental organizations with a proven track record rather than forgiving debt. If foreign aid is received only upon demonstration that education, health, or other appropriate social expenditures are being undertaken, there is no way that governments can funnel the resources entailed in debt forgiveness to undesired purposes. Direct allocation of resources to education and other productive social expenditures would achieve more. Given past track records of the governments in many of the heavily indebted poor countries (HIPC) and their limited capacity for debt servicing, we doubt whether even half of the present value of debt forgiveness (\$29 billion as of the end of 2000) would be directed toward improved educational opportunities and other desired expenditures.

There are other arguments to support additional assistance rather than debt forgiveness. First, not all poor people are in countries with high levels of indebtedness. Many poor people are in countries such as India and Bangladesh, where debt levels are not high, where government expenditures have been less misdirected, and where the case for increasing expenditures on education and other social services is also compelling.²

Secondly, the governments of the developed countries and the international financial institutions have been urging developing countries' governments to reduce their fiscal deficits, to enhance the efficiency of government expenditures, and to reallocate those expenditures toward high return activities such as education that will enable more rapid improvement in living standards and higher rates of economic growth. Then to reward precisely those countries that have generally been least attentive to these strictures surely sends mixed signals at best.

Last, debt forgiveness for very poor countries by the industrial countries has been on the agenda in various guises for at least the past two decades. Examination of the record suggests that debt forgiveness has not been followed by reallocation of government expenditures toward those activities likely to have a high pay-off and to benefit the poor. A meritorious rallying cry for those sympathetic with the poor worldwide should be for more assistance. That assistance, especially in the HIPC, should take the form of aid tied to demonstrated, rather than promised, increases in educational expenditures. To seek debt forgiveness is to assume that governments in the HIPC have entirely reformed; and even then, it is no better than allocation of additional resources to education. ⊕

²In fact, of twenty HIPC countries in 1997, as many as twelve had higher per capita income (adjusted for purchasing power parity) than Bangladesh, and nine higher than India, according to the world development indicators of the World Bank. The resources from net income of the IMF and World Bank (\$6.3 billion in net present value from the bank alone) proposed to be spent on HIPC could have been used for concessional terms to non-HIPC, but poorer, developing countries with a better record on social spending and governance.

no such levels of relief. These institutions must provide definitive debt cancellation for heavily indebted poor countries.

- Debt cancellation must not be conditioned on IFI-imposed macroeconomic reform programs. These programs have often increased poverty, inequality, and environmental degradation in much of the global south and have been implemented without democratic participation and transparency.
- Jubilee 2000/U.S.A. is deeply troubled by IMF's Poverty Reduction Strategy Paper (PRSP) process. Although Jubilee 2000/USA supports the principles of poverty reduction, civil society participation, and national ownership that underlie the PRSP, we, nevertheless, believe that the PRSP is flawed. The PRSP experience in many countries raises serious questions about the extent of citizen participation.
- The Jubilee 2000/USA campaign looks forward to moving proactively beyond the current international debt relief plan to which creditor nations are committed. There are many other indebted countries, with high levels of impoverishment, that need to benefit from debt reduction. Also, existing initiatives do not appropriately address "odious" or illegitimate debts that are patently unjust in nature.
- Finally, a neutral arbitration process needs to be explored, whereby nations can appeal for relief, and the terms of such arrangements be given open and due consideration after the current round of debt cancellation is completed.

Debt cancellation is an important aspect in the struggle against HIV/AIDS. The Lutheran Office for Governmental Affairs and Lutheran World Relief Office of Public Policy are encouraging advocacy for three components of an aggressive, global effort to halt the HIV/AIDS pandemic in Africa and around the world:

1. Increased funding to prevent HIV transmission, to provide care, treatment, and support for people with AIDS, to build local health infrastructures, and to respond to needs of children orphaned by the epidemic. The Joint United Nations Program on HIV/AIDS has estimated that it will take \$3 billion annually to establish an effective HIV prevention program in sub-Saharan Africa and deliver basic care and treatment to people with AIDS in the region.

2. Expanded access to lifesaving medications and technologies for HIV and HIV-related diseases. The U.S. should respect international trade provisions, to which it is a party, that allow compulsory licensing for items, such as AIDS drugs, needed to protect the public interest.

3. Rapid acceleration of multilateral debt cancellation in developing countries heavily affected by HIV/AIDS. The most impoverished nations in Africa are devoting more funds to servicing debts than to providing basic health care. Uganda is already benefiting from a 68% reduction in actual debt payments. Using the money available as a result of debt relief, the government created a development program that incorporated an AIDS prevention initiative. Numbers of infected persons have dropped from over 25% in 1992 to below 10% today. ⊕