The Cancellation of International Debt

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The success of the Jubilee 2000 Campaign for the remission of the debts of the poorest countries of the world may depend on understanding the implications of certain kinds of unrepayable debt, in a way that relates less to any sort of charity than to an analysis of economic, social and political history. The debts of the poorest countries are unrepayable because of their huge scale in relation to the resources of the debtor, though not so huge in relation to the wealth of the creditors, in most cases the world's richest countries, principally the G7. We may note to begin with that these debts were largely incurred in the 1960s and subsequent decades by the governments of newly-independent countries, mostly very poor and rather backward, in pursuit of a rapid development in their economies, infrastructure and educational resources, but that this incurring was almost entirely shaped on the advice of the creditors whose apparent expertise, monetary and technical, dominated the whole process. That is to say, western governments, international agencies and private companies presided over a process whereby relatively uninformed politicians in newly-independent countries accepted huge loans for inadequately thought-through projects, oblivious of the long-term consequences for their economies of the need to service such debts in the future. Doubtless the situation was made worse by the corruption and inefficiency of many of the governments concerned, but the effect of such corruption was greatly enhanced by the willingness of western financiers to play along with governments well known for their corruption, the loans of the IMF to Mobutu's Zaire being just one particularly blatant case. Indeed the corruption was in part actually caused by the western offer of huge sums of money, the spending of which could not be properly controlled in countries where modern institutions constitutive of a healthy civil society, independent of the state, remained rudimentary.

All this was made far worse by two other things, for both of which the economic and political leadership of the rich world was in large part responsible. One was the steady deterioration in the terms of trade from the viewpoint of societies with only primary goods to offer, the other was the encouragement to spend money on military equipment, so that aid was

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often actually tied in one way or another to the supply of arms. The very increase in the quantity of arms available within numerous poor societies contributed to an endemic political instability, an instability which could only result in economic deterioration.

There can be no question as to the widespread truth of this sort of evaluation of western aid programmes over the last thirty years. It is sufficient to make it clear that all in all the western world has an objective responsibility for much of the poverty experienced today by the world's poorest countries. That responsibility, of course, is not only a consequence of the post-1960 years of the nominally de-colonised world but also of the policies of the west which controlled the economies of the colonised world for many earlier decades. No evaluation of the present situation of third-world indebtedness and first-world creditedness can leave out the fact that it is a state of affairs to a considerable extent knowingly produced by the west across many years under a pretence of benevolence, a policy of guile possible only because of the lack of economic and political sophistication and experience on the part of the debtors.

Let us consider a few statistics to illustrate the consequences of these policies. Between 1990 and 1993 the countries of Sub-Saharan Africa transferred $13.4 billion annually to their external creditors (World Bank, *World Debt Tables* 1994–5, p 216). This was more than their combined spending on health and education. Nevertheless it was *only* $13.4 billion because much of their debt had been, in the jargon of the World Bank, 'rescheduled'. If this had not taken place, they would have had to pay twice as much, something almost impossible to imagine. Effectively, such figures signify bankruptcy. But, of course, the whole nature of 'rescheduling' is to ensure that the future debt rises even more. The stock of unpaid interest and principal owed to official creditors stood at almost $38 billion in 1993, more than double the level in 1990. Two-thirds of the increase in debt stock is now due to the accumulation of interest on arrears.

The build-up of thirty years of inappropriate lending has now reached a point at which the weight of debt produced is making it completely impossible to diminish the poverty of the poorest. Indebtedness to the west has become the decisive factor in pushing the poor into ever greater poverty, something diametrically opposed to, for instance, Clare Short's public commitment to work not just to 'alleviate' but actually to 'eliminate' the poverty of the poorest.

It would be naive not to recognise that the policies now advocated by Ms Short are different indeed from those which have for decades dominated the programme of the World Bank, the IMF and related agencies, policies which have ensured that the poor world actually contributes to the prosperity of the rich world and not the other way round. The World Bank has operated within a culture of Thatcher and Reagan economics, where the rich grow richer and the poor poorer, both nationally and internationally. One might not unfairly compare such a culture with that of the early Victorian, pre-Dickensian age, the culture which led in reaction both to liberal reform and to Socialist revolution. A comparable reaction is called for today. While to be effective it has to be efficiently relevant to today's situation, such a reaction must—it appears to me—re-apply internationally the basic ethical principles and machinery which drew us nationally out of the pre-Dickensian quagmire.

It is those principles and machinery which I would like to consider because their application has transformed the quality of life within our own society and I cannot see that they are any less applicable internationally. Moreover, their applicability does not actually depend on who is responsible for the process whereby insufferable debts have been incurred. Important as it may be to recognise responsibility and apportion blame, the basic civilised response to debts of this order, to the reality of bankruptcy, is not dependent on such recognition in our own society, and should not be internationally. What, then are those principles and machinery?

The two basic ones are the Limited Liability Company and the process of discharging bankrupts. To put it briefly, the pre-Dickensian response to overwhelming debt was either actually to enslave the debtor and members of his family or to leave him indefinitely in a debtor's prison. The whole point of the Limited Liability Company was to protect individuals and families from suffering the social consequences of huge indebtedness. Where it has been omitted, as for instance in the case of Lloyds names, this has been done knowingly because the profits expected were of an exceptionally high order but it has always remained a matter of playing a sort of economic Russian roulette, something attractive chiefly to the rich and idle. The consequences for some Lloyds names have been decidedly grim of late, but they are consequences which society as a whole has long recognised were not acceptable either for ordinary debtors or for society itself. The Limited Liability Company was a way of ensuring that children were not starved in order that debts should be paid. It imposed a barrier between debt incurred through lack of success in economic venture and the daily lives of people caught up in such failure. The discharging of bankrupts does the same. It draws a line enabling people to begin again with a clean slate, and prevents debts of a certain magnitude from hanging indefinitely over those who legally incur them. Moreover, the process of discharge is not controlled by the creditors. The underlying principle in both the discharge of bankrupts and the Limited Liability Company is to accept that it is right in principle and good for society that many debts be written off, rather than pursued indefinitely as had previously been the case.

In the first two months of 1992 alone, 280,000 personal debtors in the United Kingdom applied to be made bankrupt—an unusually high figure. The precise number matters little to us here. The point is that, though the process of being recognised as bankrupt is certainly painful, it is also a release whereby debts are written off within a fairly short length of time, and a new unencumbered life becomes possible. Such mechanisms are an essential part of civilised society as we know it. It is the complete failure of the World Bank and its partners to put in place comparable mechanisms at the international level which both demonstrates a fundamental lack of a civilised sense of its role and has led to a situation in which institutions intended to relieve the poverty of the poor are in reality exacerbating it.

They have chosen instead to limit themselves to the use of a third mechanism—the renegotiation of the terms of a debt so as to 'reschedule it'. This mechanism is a perfectly valid one in certain circumstances; but in others it can only make a problem worse by delaying it. Renegotiation can be sensible and the most appropriate way of coping with excessive debt when two conditions are met. The first is that there is a good hope that, with rather more time, the enterprise in question will prove profitable. The second is that, due to Limited Liability, the burden is actually only affecting companies and not people. The debt of Eurotunnel can be contained and renegotiated because its existence in no way affects the bread and butter being fed to the children of its employees. On the contrary, it is actually protecting them. This, furthermore, is the case because the debtors and creditors in question share the same economic and political society. The world of the debtors could not be dislocated without damaging the world of the creditors. Many large investors may actually have interests both with the creditors and with the debtors. Renegotiation in such circumstances protects the fabric of society and the interests of all concerned—so long as repayment is seen as ultimately feasible.

None of that applies to the massive debts incurred by third world countries at the hands of first world creditors. Here rescheduling a debt merely enhances the long-term burden of people who remain entirely unlikely to be able to pay it in the future (in a still larger form) any more than they can in the present. Its effects are not controlled by a certain economic community between creditors and debtors, and the effect of debt repayment passes straight through from political entities such as governments and economic entities such as companies to real people and their children. As Julius Nyerere has asked so piteously, 'Must we starve our children to pay our debts?'

The key factor in the development of a system whereby the west denies to the poorest nations of the world the protection which it has evolved for its own poor is the position in it of debtor governments. Loans are to governments which are not limited liability companies and can hardly apply to be declared bankrupt. Instead they remain permanently encumbered with the debts of their predecessors which can only be serviced through taxation, draining off what could otherwise be used for development, or through still further borrowing, which simply increases the debt mountain. The consequence is that such debts affect the wives and children of all their citizens exactly as pre-Dickensian debts affected the wives and children of debtors two hundred years ago.

What to do? Essentially the governments of the world's fifty poorest countries need to be accepted as bankrupt and their debts written off. It should now be clear that, far from such a procedure being in any way revolutionary, it would on the contrary concur very closely to the spirit of the west's own long-established internal mechanisms for coping with debt. The stabilisation of international relations has in every other aspect of life been based on the adapted extension to them of principles proved workable within a single state and there is no reason whatever to think that this should not apply to the area of debt. If the British Government, in particular, does not commit itself to such a policy, it will be acting in straight contradiction with its own avowed aims, and I very much hope that Robin Cook and Clare Short will not agree to that.

We have, finally, to stress that the same principles of collective self-interest apply here as in the development of the laws of bankruptcy and the Limited Liability Company. Unlimited liability was damaging not just to debtors but to the whole nation. It produced instability in society and actually inhibited economic enterprise. The writing off of debt, far from threatening economic vitality or political stability, actually helps both. The same is true internationally. The poorer some parts of the world become, the greater too must be the instability of the world as a whole and the more impossible to cope globally with the environmental, health and population issues which affect us all. It is in the long term impossible to have a stable Europe and an unstable Africa, or an environmentally safe Europe and an environmentally unsafe Africa. Africa and other particularly poor areas of the world can only be stabilised through a range of imaginative policies but within that range none is either more accessible to decision-making in the west or likely to be more quickly effective in the struggle against poverty than the writing-off of debt. On no other point can we be so precisely, or reliably, judged in regard to the sincerity of our frequently asserted intentions of assisting the under-developed world.