Sara Klassen

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MCC Essay

The Plague of Nations:

A Historical View of The Global Debt and Resolution Possibilities

Untreated epidemics. Uneducated children. Unaffordable food. More than thirty countries in the world live with these plagues because they owe insurmountable debts to a few wealthy nations and organizations. Tracing this inequality back to the stories of Genesis reveals that humans have turned against each other since Adam and Eve broke the strand of trust between mortal and divine. Great struggles face the descendants of that pivotal pair today. In 2009 A.D., nation rises against nation holding debts of values no Bible character could fathom. History, biblical or not, emphasizes that cancellation of debt is the best economic and theological solution to the global debt crisis.

The landslide to the present debt crisis was triggered in the 1960s. As the U.S. printed more money to make up for lost revenue and the value of the dollar dropped worldwide, oil companies, whose products were sold in dollars, were forced to raise prices. As a result they made large profits and deposited their earnings in Western banks. Interest rates fell quickly and to stop the looming danger of a crash, banks handed out low-interest loans to developing countries. These countries were economically stable but were quick to snatch up loans to support social development programs and meet the rising price of oil (“How It All Began”).

By the mid-1970s underdeveloped countries witnessed rising interest rates and oil prices. In addition, too many countries—advised by the West—were producing the same products, creating a surplus in supply and drop in prices. The poorest countries were in a trap. They paid more on interest and imports than they earned from exports. To pay this interest they had to borrow even more (“How It All Began”).

In search of escape from financial bondage, indebted countries quickly agreed to the conditions of International Monetary Foundation (IMF) loans. These loans required the initiation of strict economic programs with the expected result of earning more hard currency. Called Structural Adjustment Programs (SAP’s), the measures were designed to increase exports and decrease imports and spending so countries could pay off their loans (“How It All Began”). Instead of bringing relief, they incurred more damage.

Countries implementing SAP’s often cut government jobs or wages, cut spending on health and education, cut back on food subsidies, and convert subsistence farms into large export crop producers. After so much cutting, the social fabric is in shreds. Unemployment explodes as government farms require fewer workers, and lay-offs achieve desired cost reduction. Health care and education serve only the few who can afford them. Prices of essentials soar as producers must survive without subsidies. The standard of living plummets when SAP’s are in place (“How It All Began”).

To attempt repairs, the governments of wealthy Western countries, the creditors in the global debt situation, have implemented several tactics. Prior to 1989 banks wrote off some debt assuming it would go unpaid. In the 1990s Nicholas Brady, Secretary of the Treasury in the George H. W. Bush administration, introduced the Brady plan, which annulled a portion of debt using funds from the IMF and World Bank and also rescheduled remaining debt by turning it into bonds. This did not and has not benefited debtors because debt was not lowered significantly and they still must pay interest (“Too Little, Too Late”).

Two other plans were the first and second Heavily Indebted Poor Country Initiatives—HIPC1 and HIPC2. Complete debt cancellation was first introduced as a possible solution to the crisis in 1996 in the form of HIPC1. This initiative, formed by IMF and World Bank, proposed 80 percent debt relief to eligible countries if they would complete six years of structural adjustments. Under HIPC1 only Bolivia and Uganda received cancellation. After a year they returned to levels of unsustainable debt. Mozambique paid only one percent less on debts than they did before the initiative ("Too Little, Too Late"). HIPC1 joined the list of inadequate attempts.

With the general failure of HIPC1, the restructured HIPC2 offered hope. It was launched at the Cologne G8 Summit in 1999 promising "broader, faster, and deeper" debt relief ("Too Little, Too Late"). The reformed plan released 100 billion dollars for debt relief of heavily indebted countries. This money helped a few countries like Mozambique where relief money was distributed to health, education, employment training, and agriculture—areas necessary for development. But under HIPC2 countries that failed to complete adjustment programs did not benefit from the program. Even those who did receive relief continued to pay significant amounts in interest. The results of these attempted solutions show that debt relief designed and controlled by creditors is ineffective ("Too Little, Too Late").

Alternative approaches to debts appear in history. In ancient cultures laws differed geographically, but like today, debt often resulted in bondage. In the Old Testament if debt went unpaid, debtors became slaves to creditors. However, the laws of Deuteronomy state, "If a fellow Hebrew, a man or a woman, is sold to you and he serves you six years, in the seventh year you must let him go free. And when you release him, do not send him away empty-handed. Supply him liberally from your flock, your threshing floor and your winepress" (NIV, Deut.15.12).

Similarly the law laid out in Exodus states that every seventh year, the year of Jubilee, the fields should not be worked and all debts must be cancelled. Deuteronomy 15:2 specifies, “This is the manner of remission: every creditor shall release what he has loaned to his neighbor; he shall not exact it of his neighbor and his brother” (NIV). The year of Jubilee and the laws of the Old Testament are insurance to the poor. They represent a necessity to care for the poor and for creation.

Debt cancellation is not a means of reform practiced only in the Bible. In ancient Greece, like in the Old Testament, punishment for debt was enslavement or the sale of family members as repayment. When Solon, an Athenian statesman and poet took power in 594 B.C., the Greek economy was in shambles. Farmers who mortgaged land were required to pay one sixth of their annual produce and could barely survive in years of poor harvest. In addition, poor farmers lost their land to debt, and those unable to pay were enslaved. To heal the economy, Solon’s first order of business was to cancel debts. He released debt slaves and banned loans based on personal security. His actions allowed the poor and indebted to return to their farms or plots and prevented future debt enslavement (Molina 3-4).

In the New Testament the punishment for not paying a debt was imprisonment. This is exemplified in a parable told by Jesus in Matthew 18:29-30. In this text a master cancels the debt of his servant. In turn the servant sends his own debtor to jail. Jesus directs his disciples to follow the model of the master, forgiving their debtors because God, like the master, forgives everyone (NIV).

In the history of the United States debt has been cancelled in several instances on terms of its illegitimacy. According to the Jubilee USA Network, illegitimate debt is debt incurred by undemocratic means, without transparency or participation by civil society or representative branches of government; debt that cannot be serviced without violating basic human rights; and debt incurred under predatory repayment terms including situations where original interest rates skyrocketed and compound interest made repayment impossible (“Recent Developments” 1). The United States acted on this understanding in 1898 when Spain ceded Cuba to the U.S. The American Commissioners determined Cuba’s debt to Spain was illegitimate because Cuba did not consent to it, and because some of the money borrowed was used to suppress popular uprisings. The U.S. refused to take responsibility for Cuba’s debt. In 2003, the United States again cancelled illegitimate debt. After Saddam Hussein was overthrown in Iraq, the U.S. Treasury Secretary and Undersecretary of Defense stated that Iraq should not be held responsible for the debts incurred by a past dictator. Debt relief to Iraq was granted (“Recent Developments” 3).

The U.S. government, recognizing the inefficiency of their recent debt relief initiatives and the need to solve the crisis, introduced new legislation. This legislation, The Jubilee Act for Responsible Lending and Expanded Debt Cancellation, passed the U.S. House of Representatives in April 2009. It directs the major creditors, the World Bank, IMF, and Paris Club of Official Creditors, to negotiate the auditing of debt portfolios of the poorest countries and the debt cancellation of eligible low-income countries. It also orders them to encourage the government of each country to allocate twenty percent of its budget to poverty alleviation (“Jubilee Act”). The most significant part of this act is the proposal to audit loans from international financial institutions and commercial creditors. The auditing process will determine the original terms of loans, how much interest has been paid, what the money was used for, who borrowed the money in whose name, and the role and identity of the lenders. Debt auditing allows an interactive reexamination process that ensures a government’s accountability for the well being of citizens when borrowing. Once the legitimacy of a debt is decided, creditors cancel illegitimate debt and debtors renegotiate legitimate debt. When all loans are audited, the legality, transparency, quality and efficiency of borrowing are ensured. Economic, social, and environmental impacts of loans are accounted for ("Recent Developments" 2). The Jubilee Act, named after the Old Testament law, fulfills some of the biblical mandate to care for the poor and creation.

If passed, the Jubilee Act will benefit not only poor countries, but wealthier countries also. In the current situation, in which underdeveloped countries cannot afford to import goods, unemployment rates rise globally. Alternatively, when the economies of underdeveloped countries are thriving, all countries benefit from the expanded global market and greater mutual sharing of ideas, innovations, and capital.

History shows that debt cancellation is a solution to the global debt plague. The Jubilee Act offers to reverse the cycle of debt. With its call to re-examine the legitimacy of all debts the act promises restoration. Nation will join with nation in economic equality. This act moves the world toward adequate health care, available education, and abundant food for all people.