

Continued

No. 9322**(Study Document)****INTERNATIONAL DEBT****ISSUED by the General Assembly for study**

This study document was prepared in response to GB-1216 which authorized the Joint Staff Working Group on International Concerns to prepare a Study Document on International Debt.

- I. Introduction
- II. Third World Debt
 - How did it happen?
 - Where did the money go?
 - What can be done?
- III. A Christian Perspective
- IV. Questions Christians Will Ask
- V. Endnotes

INTRODUCTION

"International Debt - A Study Document" is presented as a study document of the Christian Church (Disciples of Christ) in response to a request from the General Board of the church. This paper is not a position statement of the church. As a study document, various positions are stated. All persons studying the issue of international debt are asked to reach their own conclusions based on their reflections on the issue.

The "Special Rules of Procedures for the General Assembly" describes a study document as "a study and analysis of a subject which involves ethical, moral or religious elements and on which it is deemed important that members of the Christian Church (Disciples of Christ) be more thoroughly informed as an aid to the formation of Christian opinions and judgments or on which the judgment of individuals or groups is desired."

Two hundred and eighty-two congregations, chosen at random, were asked if they were willing to review an early draft of this study document and offer suggestions for changes. Forty-nine congregations reviewed the paper and returned their critiques. In some cases, the reactions were from individuals; in other cases, a group met to study the document. Many of their suggestions are included in this revised draft. Not surprisingly, the responses varied sharply.¹

While some members of the Christian Church (Disciples of Christ) believe the gospel sheds no light on political/economic issues such as international debt, this study document makes the assumption that our commitment to Jesus Christ is to be shown in every aspect of our living, including our political and economic thinking and acting. A fuller rationale for that position is stated later in this document.

This study document is intended to be an introduction to an admittedly complex issue. Some responders to the early draft of this study, who were considering this subject for the first time, argued that the document was too technical at points; others who were more familiar with the debt problem claimed the study document was too simplistic.

While Canada and the United States have large external debts — the US places number one among debtor nations — neither is assumed to be in crisis. Although their external debts impact the economics of both nations, the situation is not considered a global emergency nor does any international agency order Canada or the USA to operate their economies by different principles. The difference between these two nations and those in crisis lies in their ability to "service" their debts, that is, to pay the interest. A real crisis exists for the so-called "Third World" nations and therefore this study document deals with that problem.

The term "Third World" is far from precise. In the first place, approximately two-thirds of the world's people live in countries normally given that name. Furthermore, wide differences exist among these countries. They are sometimes referred to as "The South" compared to the industrialized "North," but that also is inexact. Since the term "Third World" is widely used, the study document will apply it to countries with little advanced technological development, whose economies rely primarily on their natural resources and low wage labor forces and whose people experience extreme poverty.

THIRD WORLD DEBT

Third World debt has a catastrophic effect on people's daily lives as the following voices tell us:

"Over the past four years, our people have suffered what can no longer be described as a mere deterioration in their environment and in their lives, but a systematic and planned destruction of their health, nutrition, housing, employment, education and social welfare; a destruction which in almost every country of our region is cloaked by demands for so-called 'structural adjustment,' designed and imposed by the International Monetary Fund and the World Bank."

"Can you describe your assailant?" "Yes. He was 13 stories high, had 500 branches and hit me with a promissory note."

"We know the Philippine government owes the World Bank a lot of money and this has been a carrot which has been dangled in front of the Philippine government to get it to impose economic sanctions in the Philippine economy. This means a freeze in wages, inflation for basic commodities and other social problems. My people, we start thinking, 'Why do we have this poverty, even though we work eight hours a day? Why don't we have enough?' And so people began to think, to get organized, to act. In response, the government sends in troops because it says that when people organize they are subversive. So indirectly the effect of the debt problem is a lot of human rights violations."²

There is widespread agreement that the repayment of loans made to Third World countries is causing intense suffering to the poor and the powerless in those nations. There is widespread disagreement on how to deal with the problem. This study paper will describe the present situation, state the different theories on the causes and proposed solutions to the crisis and consider some of the questions that Christians will raise as they face this critical issue.

Is it bad to be in debt? Sometimes yes, sometimes no. Most people would never own a house or a car or, on occasion, get needed medical treatment, if they were not able to borrow, that is, go into debt. Also, few businesses start without borrowing money. It can be argued that debt is one way persons with limited income have access to goods and services otherwise available only to the wealthy.

Going into debt seems to be a valid approach for obtaining goods and services for persons or institutions when the debt is expected to be repaid. However, individuals and corporations can and do borrow too much and for inappropriate reasons.

The same is true for nations. A country might borrow funds to improve its roads and harbors on the assumption that such infrastructure is necessary for development and for the welfare of its people. Similarly, it could decide that money spent on education, health care or agricultural practices is money well borrowed. However, if a nation goes into debt for projects with no long-term benefit for its people and that do not increase the country's ability to repay the debt, then problems lie ahead.

No global debt crisis was recognized generally until Mexico announced in 1982 that it could not pay the interest on its \$80 billion debt. That was followed by the realization that some countries would never repay their debt and that others would need massive refinancing. The situation became critical for:

- Governments of debtor countries that no longer could borrow money.
- People of Third World countries who faced ever-deepening misery in their shrinking economies.
- Banks in the United States, Canada and other industrialized countries with enormous amounts of money tied up in unpayable loans.
- Governments of the industrialized countries whose economies could remain healthy only with growing global markets.

#9322

How Did it Happen?

Economists have clear theories about the origin of the present situation. Unfortunately the theories do not agree. The position of the governments of Canada and the United States, as well as most other industrialized countries, is that the major fault lies with the flawed economic policies of the debtor countries. Another interpretation, given by most Third World spokespersons, is that the international economic system is designed to produce winners and losers. This inevitably leads to the present crisis.

Both views recognize certain historical events as having a powerful impact on the debt problem.

1. The dominant economic development model says that certain countries will concentrate on providing the raw products and low wage labor for simple production while businesses in other countries will market the manufactured goods. Some will argue that this uses wisely the natural resources and the low-wage, unskilled labor of the developing countries. Critics say that when manufacturing countries always determine the cost of labor and the prices to be paid for the raw products, the world remains divided between rich and poor. While a few high tech industries can be found in Third World countries, the basic pattern remains the same.
2. In 1973, the oil-producing countries (OPEC) quadrupled oil prices. This sharply increased the energy costs for Third World countries and flooded the banks of the industrialized countries with money — called Petrodollars. Many bankers argue that banks simply did what they are supposed to do. With large deposits on which interest had to be paid, the banks offered loans to those who needed money. Others claim that the commercial banks were in such need of investment opportunities that they violated their own lending principles and made loans without considering the risks involved or without asking how the money would be used.
3. OPEC sharply increased oil prices again in 1979, and at the same time interest rates in the United States and the other industrialized countries rose dramatically. Since most loans to developing nations were tied to these increased rates, the cost of servicing the loans went up rapidly. Third World countries found themselves borrowing not to improve their economies but to meet these higher interest payments.
4. After Mexico's 1982 announcement that it could not make the interest payments on its debt, commercial banks recognized the risks involved and cut back on the loans they were willing to make to Third World countries. This made sense to the bankers, but it meant countries could not obtain additional loans, falling farther behind in their debt repayments.

Where Did The Money Go?

The external debt of Third World countries is well over \$1 trillion. Such a figure is easy to say but hard to grasp. If one were to give away \$1000 per day to good causes, it would take 3000 years for the money to run out. Or, if \$1 trillion were invested at a modest five percent annual rate of interest, the return could be about \$137 million per day.

Some of the \$1 trillion went to life-saving development projects in Third World countries. As one example, Zimbabwe and Tanzania used borrowed funds to develop education and health care projects.

Unfortunately, much of the \$1 trillion was not put to good use. An astonishing amount of some loans went from private banks to Third World governments, then back to those same banks in the industrialized world into the private accounts of corrupt politicians or business leaders of the receiving countries. A 1987 study by Morgan Guaranty Trust of New York claims that if this "capital flight" had not taken place, Argentina's debt would be closer to \$2 billion than its actual \$62 billion and the Philippines' debt would be less than one-half of its \$29 billion figure.³

In some countries, much of the money went for military expenditures, often to keep dictatorial leaders in power by suppressing any form of popular dissent. Until recently, neither agencies (such as the International Monetary Fund) nor lending countries objected to such practices. Money also was wasted on ill-conceived projects. A multi-million dollar nuclear power plant in the Philippines was built on a dormant volcano. Bribery and pay-offs frequently were involved in misuse of development funds. Blame can be laid on actors in both first and third world institutions.

What Can be Done?

Third World debt is only one of the issues to be faced as the world deals with an increasingly global economy. Also needing consideration are questions of trade and aid, the role and control of multinational corporations, the protection of the global environment and the implications of population growth. Many observers agree that the debt crisis blocks any serious wrestling with these other essential issues.

Proposed solutions to the Third World debt crisis understandably differ in light of conflicting theories about its cause. The particular economic theory held by the observer is the most important lens for perceiving both cause and cure. While these theories may be based on careful thought, they also are influenced by where one stands on the economic ladder — rich or poor, powerful or weak. How this operates can be seen by observing the various actors in the debt drama.

Two important international agencies were created at the close of World War II by the industrialized market-oriented nations⁴ of the world: the International Monetary Fund (IMF) and the World Bank. They were given limited assignments. The IMF was designed basically to maintain fairness in international trade. It set and maintained the exchange rate among the various national currencies — how many dollars for how many marks/francs. The dollar was clearly the currency of international trade and its value was set in terms of how much gold it could buy. The IMF also made loans to nations which had a short-term balance-of-payments problem, that is, to countries that temporarily could not meet their payment obligations. The defined purpose of the World Bank was to give loans to countries with longer-term need for funding economic development projects.

Neither agency was intended to control the economies of the countries receiving loans. However, some in the developing countries felt that the agencies were created to do just that: stimulate the economies of Third World countries to become a market for the sale of manufactured goods from the industrialized nations.

Voting rights in the International Monetary Fund are based on the amount of money a country has contributed to the fund. The large industrialized nations thus hold a veto power over all IMF policies. Increasingly, the policies of the fund matched those of the industrialized countries with strong market economies.

When the petroleum and interest rate problems of the 1970s pushed Third World countries farther into debt, the IMF began to require those receiving nations to adopt economic policies supported by its large contributor nations. These reforms, strongly backed by the governments of Canada and the United States, required that a country asking for a loan move toward a market-based economic system. A US Department of State report expressed this position clearly: "Economic reforms would permit market forces and private enterprises to play a large role in the economy...[The US proposal] helped developing countries recognize that long-term growth requires a commitment to market-oriented policies."⁵ Implicit was the belief that government involvement in the economy should be limited sharply since free markets are necessary for economic growth which is a requirement for economic justice.

This package of reforms, currently called a Structural Adjustment Program, is based on the assumption that economic growth is essential and that it can come only through following the principles of market economics. The Structural Adjustment Program typically stresses the following:

- Increasing exports — earning hard currency to repay the loans;
- Devaluing the local currency — making exports cheaper;
- Imposing wage controls — reducing the costs of production and making exports more price competitive;
- Reducing government spending (often for public services, including subsidies for basic foods) — saving money that can be used for debt repayment;
- Raising taxes — providing more money for debt repayment;
- Increasing interest rates — encouraging savings and investments;
- Ending trade barriers — forcing local firms to be more competitive.

It is interesting to note that the governments of the USA and Canada accept this package as appropriate for solving the debt crisis of Third World countries but neither believes the entire package is necessary for its own debt problems.

The short-term effect of this package worsens the quality of life for those already suffering the most. Food riots in several countries bear witness to the anger felt when the repayment of debts to wealthy banks and countries is given greater priority than the welfare of the people. Since private banks follow the IMF lead in making their loans, not accepting the proposals means being without credit. Thus, Third World nations have little choice but to accept the proposed policies.

Supporters of the Structural Adjustment Program approach are convinced that it offers the only long-term hope for poorer countries. "First pain, then gain" is their motto. "In the long run," all will benefit. Some proponents think of economics as akin to mathematics or physics with rules that must be followed. Their policies are considered economic "givens."

Further, the collapse of Eastern European economies is cited as proof that only market economics is valid. Some claim that Third World countries accepting this theory — such as Argentina, Tanzania and Mexico — are beginning to show good results.

In the last few years, some changes have been made in the policies followed by the IMF and the industrialized nations. It is now recognized that sustained economic growth cannot take place in the face of political corruption, economic injustice and environmental destruction. In a 1990 report, the government of Canada said that "Economic health is a key to strengthening and consolidating democratic government rule of law and respect for human rights. Structural adjustment should be socially responsible and seek to bring benefits to disadvantaged groups by promoting social justice and economic equity. Sustainable development requires that adjustment programs reduce the pressures of poverty, ignorance and over-population on a natural environment which is frequently at the breaking point."⁶ A study by several ecumenical coalitions in Canada claims that the practices of their government are far removed from its stated policies.⁷

Some critics of IMF policies claim that its only motive is to maintain the present international economic order. The concern of the industrialized world, according to this position, is to see that the debt is repaid, Third World markets are opened and manufacturing control is continued by the industrialized countries. They also point out that the lending countries' policies on debt repayment often are politically determined. For example, Egypt's debt was forgiven in response to its role in the Persian Gulf War.

Some who are critical of present debt repayment policies offer pragmatic alternatives. While appreciating some of the recent changes in the terms offered the debtor nations, they argue for even more basic policy changes, such as:

- The debts of some countries, particularly in sub-Saharan Africa, can never be repaid and ought to be written off.
- Some loans need to be refinanced at lower interest rates and with longer repayment periods.
- Any repayment of debt should permit economic development to keep per capita income rising by at least three percent per year in the developing countries.
- The renegotiation of loans should not be determined by a commitment to particular ideological economic principles.
- A single set of requirements should not be required of all debtor countries; a case-by-case approach is the only one that makes any sense.
- The economic well-being of the poor should have priority in any debt repayment proposal. (This often will require changes in land distribution practices and a move toward more democratic government.)
- The movement should be toward each country having greater control over its own economic development within a global system, even though complete self-sufficiency is not an option.
- Additional loans should not be made if their only purpose is to repay the banks and governments of developed countries for previous loans. (Since 1985, there has been a net flow of capital from the Third World to the industrialized world.)
- There is still a great need for substantial government loans and grants to developing nations.
- Developed nations should work toward the United Nations proposal of seven-tenths of one percent of their Gross National Product being used for development assistance.
- Any proposal for growth should be built on a commitment to sustain the environment.
- The net result of debt repayment programs should be to improve the quality of life for people in the Third World.
- Third World countries should be allowed to open their markets selectively to ensure that beginning industries are protected.
- Priority for additional loans should be given to projects that involve the recipients in the planning and that recognize that women are the most important contributors to a country's welfare in many parts of the world.
- The IMF and the World Bank should become more democratic and no longer operate with policies determined only by the lending nations.

#9322

Supporters of these changes tend to stress that all economic decisions are political in nature and that governments invariably are involved in economic policy and practice. They might note as examples national health programs or government-enforced safety and environmental standards. In fact, some argue that elimination of government-imposed barriers against Third World goods by industrialized nations would be the most important way of assisting developing nations.

Two additional approaches have been offered to lessen the debt crisis. The first proposes that lending agencies act as intermediaries in permitting out-of-the-country corporations to buy up part of the loan in return for some control over previously state-owned businesses. This debt-for-equity approach is defended as giving needed capital and expertise to a business in a developing country since the new partners would want the business to succeed. Critics reply that this increases outside control of a country's economy, which is a significant part of the original problem. Further, they believe that the emerging global firms, including banks, have no national commitments and would move their capital as soon as higher profits were evident elsewhere.

The second approach is a "debt-for-nature" swap. A debtor nation is allowed to pay off part of its debt in its local currency, providing the sum is put into a fund to be used for environment-improving projects. Some private organizations raise money to buy up debt for such purposes. This approach allows a country to lessen its debt without access to hard currency (dollars), thus lowering its interest payments on the remaining debt. At the same time the country becomes involved in needed ecological efforts. However, critics argue that this is once more a solution imposed by outsiders and does nothing to solve the problem that produced the debt in the first place.

A CHRISTIAN PERSPECTIVE

Christians should not have to ask why the Third World debt crisis is also a crisis for them. The fact that the world's economic arrangements bring death rather than life to millions in the human family is enough reason to get involved. But concern for ourselves is another reason to consider Third World debt a crisis. The well-being of people in the USA and Canada is tied in many ways to the well-being of the Third World. For example, the flora of the tropical rain forests directly or indirectly have made possible many of the prescription drugs currently in use.⁹ Additionally, future employment in Canada and the USA will depend on the ability of the majority of the world's people who live in the Third World to buy their products.

Father Jose Almiro, a Brazilian priest, sums up the situation sharply: "An international financial system has been created that robs the poor to pay the rich... This whole system is in the same situation as the Titanic. The engine room and the second class decks — that's us in the Third World — are already flooded, but the first class passengers have not yet grasped what is happening and keep partying as if there were no problem, as if it could not affect them. The truth of the matter is that if the ship goes down, all of us will perish together."⁹

This International Debt Study Document is based on the assumption that the Christian faith centers in the affirmation of Jesus Christ as Lord and Savior and that the God who is revealed in Jesus Christ is the Creator, Redeemer and Sustainer of the universe. That faith must be expressed in every aspect of life.

Persons who share this point of view often refer to the authority of the Bible, tradition (what the church has taught through the centuries), reason and experience. They insist that all four of these "tests" are to be used in understanding the meaning of Christian faith in our time.

From this perspective, the God who is revealed in the life, death and resurrection of Jesus Christ is Lord over all of life. The Bible always ties together spirit and matter. The first commandment is to love God, but you cannot love God whom you have not seen if you do not love your neighbor (I John 4:20). To deny that the Christian faith speaks to the issues of politics and economics is to negate God's creation and to limit the lordship of Jesus Christ.

This universality of God's creativity and concern has two other important implications within this understanding of the faith. First, we are all members of God's human family. When one rejoices, we all rejoice; when one suffers, we all suffer. When children are dying because of certain economic or political policies, they are our children who must be saved. When there is continuing poverty in our countries or in the world, that is a family crisis. In fact, the Bible teaches that God has a special concern for the poor and so must we.

Second, the natural world also is a part of God's creation and the Bible stresses that we are to be faithful caretakers. Instead, our generation has fouled the air, eliminated much of its flora and fauna and consumed its resources excessively. Now, that generation is called upon to change its ways. That is not only common sense; it is Christian teaching.

The doctrine of sin must be taken seriously according to this perspective. While God wills shalom (the kingdom or reign of God) with its conditions of wholeness, health, safety, peace, justice and love, no human system or society ever achieves that. Christian faith thus stands in judgment of all economic

#9322

and political systems. The reality of sin (self-centeredness) suggests that systems should have checks and balances built into them.

On the other hand, this view of the Christian faith also understands that humans can act selflessly for the well-being of others. This capacity for self-giving and cooperative activity also must be provided for in political and economic arrangements.

However, those who share the same understanding of the gospel have differing views on how the church should be involved in economic and political issues.

(1) Some hold that the church's responsibility is to educate members to do biblical, theological and ethical reflection. The church also motivates persons to live out their faith in all life situations. In worship, the Christian community renews its commitment through thanksgiving, confession, forgiveness and rededication. The church might well expose its members to political, economic or other information related to a public issue but it has no particular expertise in such matters. Therefore, it should not formulate positions or urge corporate action.

(2) Others argue that the church has an obligation to bring its best minds to bear on the critical human problems of the day and strive for support for certain hoped-for outcomes. Although they do not identify such goals with the reign of God, they feel the urgency of pointing the way toward greater justice. At the same time, they believe the Christian faith does not provide clear guidance for choosing among proposed alternative strategies for reaching those goals. They want Christians to remain open to various proposals, possibly evaluating them by the biblical injunction "By their fruits, you shall know them."

(3) Other Christians feel that the church should organize its members to support certain policies or practices which they believe will move society toward those agreed upon goals. Among organizations they point to are Bread for the World, Interfaith Impact for Justice and Peace and other church-related advocacy groups.

QUESTIONS CHRISTIANS WILL ASK

Whether Christians believe that members of the church should respond through individual or corporate actions, their faith will lead them to struggle with certain questions as they study the issue of Third World debt.

1. What judgment does the Christian faith bring to bear on any economic system? How does God's claim on our lives impact our allegiance to the policies of that system?
2. How do Christians decide the meaning of love and justice with regard to such a specific issue as Third World debt? What is the role of Bible study? Of prayer? Of the community of believers? Of Christian tradition? Of reason? Of experience?
3. What biblical passages are particularly relevant to this issue? The Year of the Jubilee (Leviticus 25)? The Parable of the Three Servants (Matthew 25:14-30)? The cleansing of the Temple (Matthew 21:12-17)? The judgment of the nations (Matthew 25:31-46)?
4. With regard to each proposed solution to the Third World debt crisis:
 - a) How does the proposal move in the direction of providing the basic necessities of life for all persons in the debtor country?
 - b) To what extent have those in the Third World country been involved in designing the program?
 - c) What is the role of women in implementing the program?
 - d) How will the proposal impact children?
 - e) How does the proposal move the country toward long-term growth without damaging the environment?
 - f) How does the plan move that nation toward greater democracy and justice?
 - g) Is it appropriate to attach economic conditions (such as, a move toward a market economy) to loan repayment proposals? Why or why not?

Ms. Sithembiso Nyoni, director of Zimbabwe's Organization of Rural Associations for Progress, articulates the issue that Christians must face: "... it is the poorest who must bear the burdens 'on their already breaking backs' and even their children will not benefit. African people would sacrifice a great deal for the future of their children, but this thing — this diabolical thing you call structural adjustment — is not just a bitter pill for us to swallow, it is a poisonous pill that will kill our people."¹⁰

When members of God's family — and our family — cry out their hurts and their needs, Christians are called to respond with loving and thoughtful concern which leads to effective action.

Concluded

9322

NOTES

1. "This document shows the First World countries as "good guys". They are not! They have trapped Third World countries by typical capitalistic-imperialistic thinking and action. The document shows a blatant bias."
"All of the quotes are very prejudicial to any but the view of the Third World. Indeed, the voices of the Third World are the only ones allowed to frame the issue."
"[The document] gives so many views . . . in so even-handed a fashion that no conclusion can be reached by a fair-minded but previously uninformed individual."
2. The three quotations on page 2 are from "Contact" No. 123, December 1991 — February 1992, published by the Christian Medical Commission of the World Council of Churches, Geneva, Switzerland. The first reference cites concerns of Latin American and Caribbean people. The second refers to a cartoon published in a Brazilian newspaper. The third quotation is from a community organizer in the Philippines.
3. From a study by Morgan Guaranty Trust reported in "International Debt Crisis, Year Five" by Warren Bello and Claudio Sant, published in *Christianity and Crisis*, November 23, 1987, pg. 405
4. All economic systems must determine what goods and services are to be distributed. In greatly oversimplified terms, a market-oriented economy make those decisions by creating a structure (a market) in which borrowers and sellers, acting in their self-interest, determine the prices of goods and services. Persons thus determine the issues of production and distribution by how they spend their dollars. By contrast, a "command economy" turns those decisions over to a