A Down to Earth Guide to THE DEBT CRISIS

THIS IS PART OF A SERIES OF SHORT COUNTRY FOCUSED GUIDES AIMED AT BRINGING GLOBAL ISSUES *'down to earth'* THROUGH THE USE OF CASE STUDIES AND HUMAN STORIES

THIS GUIDE TELLS STORIES FROM ***Mali, the Philippines, Haiti, Argentina, Zambia*** AND ***Ecuador***

"EVERY ZIMBABWEAN OWES $500"

As Zimbabwe slowly staggers from an unrestrained decade of economic recession, the country's huge debt burden totalling about US$7 billion in external arrears presents an albatross around the nation's neck. Put simply, every Zimbabwean owes external creditors US$500.

Sunday Mail, 5 December 2010

"€21,000 – THE AMOUNT OF NATIONAL DEBT OWED BY EVERY MAN, WOMAN AND CHILD IN IRELAND"

Irish Times, February 12th 2011

'There's a hole in the bucket'

The world's poorest countries pay more than $100 million each day to rich countries and lending institutions. For every $1 dollar poor countries receive in aid they give $5 in debt repayments.

This means that poor countries are unable to provide the most basic human rights for the majority of their people.

The Global *Financial Crisis*

The recent financial crisis has triggered debt crises of varying degrees of severity in a number of Northern countries, including several in the Euro zone as well as the USA. While most Northern countries are adjusting to hard times, the recent international financial crisis has impacted hardest on Southern countries. They are falling into a spiral of greater debts as demand for their exports has collapsed, flows of foreign direct investment and international aid are reduced, and there is less income from tourism and from vital remittances of people working overseas. Added to that, these countries have to cope with spiralling food prices and transport costs.

Should the ordinary people be held responsible?

There is a lot of debate about whether indebted countries can or should repay all this debt. This is based on concerns over what is called 'moral hazard' - a concern that cancelling debts can encourage borrowers to borrow recklessly again. Some argue that a country must always repay its debts in order to maintain its credit worthiness. Others argue that where debts have arisen due to reckless lending and the money borrowed hasn't benefited the ordinary people, then why should the ordinary people bear the burden of repaying these debts? Some also argue that a distinction must be made between ***private debts and sovereign (or public) debts*** and between ***legitimate and illegitimate debt.***

Private debt, public pain?

Across the 'rich world' in countries such as Greece or Ireland, private debts have now become pubic debts and as a result ordinary people are paying the price of a crisis which they did not create, as deep spending cuts are inflicted on their societies. The pattern of irresponsible lending being paid for by the people is all too familiar in the global South. In the 1970s, banks recklessly lent huge sums of money to developing countries, and then when interest rates rose and those countries' incomes fell, it created a spiral of deeper indebtedness. The so-called 'Third World Debt Crisis' led to harsh austerity and liberalisation measures on the countries which resulted in millions of wasted lives and opportunities. Lending institutions and borrowing governments have recognised the suffering caused by the debt crisis but don't agree what to do about the debt crisis.

People across the world are now challenging the morality of having to repay debts which were caused by the reckless lending practices of private banks.

Rich World, Poor World?

At the end of December 2010 the National Debt of Ireland was €93.4 billion. (According to the National Treasury Management Agency). That doesn't include the €85 billion borrowed from the EU/IMF in November 2010. Servicing the Irish national debt cost over €5.6 billion in 2011 and is set to rise to well over €8 billion in 2012.

Personal debt is also a growing problem in Ireland as more people suffer job loses and pay cuts and are unable to meet day to day living expenses. The number of people with mortgage arrears is climbing each month with almost 10% of mortgage holders reported to be in difficulty in Spring 2011.

Views

"Consider debt relief. - A highly effective form of development assistance, it gives governments greater control over domestic revenues and reduces their dependence on aid."

UN Human Development Report 2005

"DRAMATIC INCREASE IN NUMBER OF IRISH MORTGAGES IN DIFFICULTY"

RTE News, 1 March 2011

"PENSION REFORMS - PUBLIC SECTOR WORKERS TO PAY MORE AND RETIRE LATER"

The Guardian, 10th March 2011

One View:

People's movements of the global South:

'We remind the leaders of the world's richest, most powerful nations that in truth, the North owes the South. The wealth of the North has been accumulated largely at the expense of the South – our land, our minerals, our forests and waters, our labour, our communities, our economies, our cultures, our governments, our freedom, our lives.'

Jubilee South – Network of Southern Justice Movements

'We don't owe so we won't pay!'

This is the slogan of justice campaigners who question the legitimacy of poor countries repaying loans that were given

- For useless or overpriced projects which did not benefit the people
- To corrupt leaders who stole the money or used it to oppress their own people or to wage war against another country
- On unfair terms (e.g. unfair interest rates)
- With damaging conditions attached

What do *you* think?

- **Should a distinction be made between public and private debts?**
- **Should Southern and Northern countries be treated the same when it comes to repaying their debts?**
- **What are the similarities? What are the differences between their situations?**

Country Focus: Haiti

- A view from Jubilee USA

- 75% of people in Haiti live on less than $2 a day.
- January 12th 2010 over 222,500 people were killed when an earthquake hit Haiti and destroyed the capital city Port-au-Prince. Today thousands of survivors remain in makeshift shelters and are at risk of contracting cholera and other diseases.

In the wake of the earthquake Haiti was expected to use one tenth of its revenue to repay its foreign debt

(source: Eurodad)

When the earthquake hit, Haiti's external debt was $1.2 billion. Almost half of that debt came from loans incurred between 1964 and 1986 by the corrupt and oppressive Duvalier family dictatorship. Haitian justice groups had argued for decades that the debt should not be repaid by those you have already suffered at the hands of this regime.

Haiti had received some debt cancellation, after meeting conditions set out by an IMF debt cancellation programme, $1.2 billion of its debt was wiped out. However, at the end of 2010 interest on its remaining debts and debts that were not included under the scheme meant that it faced a massive $800 million debt that needed to be serviced to the rich world.

After the earthquake there was a global outcry callling for Haiti's debt to be cancelled. The World Bank, IMF and some other lenders eventually agreed to cancel the debts owed to them. However, the IMF then issued new loans worth $60 million, albeit at concessional rates. Haitian justice groups are worried that their country is taking new loans again and fear a new cycle of debt and policy conditions. They are calling for grant only finance. The IMF says they are only allowed give loans, not grants.

View from Haiti on their historical loans

"The Loans have (also) caused earthquakes and tremors which undermined our institutions and our capacity to respond to a crisis of such magnitude'

Camille Chalmers, January 2010

Director, PAPDA, Haitian umbrella group for development organisations

Country Focus: The Philippines

- A view from Freedom from Debt Campaign, Philippines

- Total external debt: $61 billion
- Total external debt payments: gives $9.9 billion each year to the rich world in debt payments.

The majority of Philippines debt was accrued during the reign of another corrupt and oppressive leader, Ferdinand Marcos. When Marcos assumed the presidency in 1965, the foreign debt of the Philippines stood at below $1 billion. When he fled the country in 1986 the country's foreign debt stood at $28 billion. Today tax payers in the Philippines continue to repay Marcos' debts. Justice group, Freedom from Debt Coalition (FDC) in the Philippines argue that most of the money was spent on useless projects or stashed away in foreign bank accounts. Here's one example of how the money was spent ...

> 'The Bataan nuclear power plant was constructed in the 1970's, originally planned to cost $2.3 billion. The US Export-Import Bank provided loans totaling $900 million towards the building of the plant by a US company, Westinghouse, which won the contract with bribes and the help of friends of the ruling dictator Marcos. The project was eventually abandoned, declared unsafe for its defects and for the fact that it sat on a tectonic fault line in a volcanic region and could pose major safety risks for the surrounding population. Though the plant never generated a watt of electricity, Westinghouse was still paid in full. By 1987 the Philippines had paid almost $1 billion in debts for the project; a further $460 million was repaid in the next two years. The final payment of $16.7 million on the remaining debt was only in 2007. The people of the Philippines – who had no say in the debt contracted in their name under notoriously corrupt President Marcos – have paid billions of US dollars on an over-priced and useless project of absolutely no benefit to them"
>
> *(source - Unfinished Business – Ten years of dropping the debt, Jubilee Debt Campaign 2008, page 9)*

What do *you* think?

- **How might countries like Haiti and the Philippines get out of their desperate situation?**

Austerity – *so what does it mean?*

Politicians all over the world are telling their citizens that they must tighten their belts as austerity measures are needed. But what does this mean? And who is most affected by this austerity?

"GREECE APPROVES SWEEPING AUSTERITY MEASURES"

After a dramatic parliamentary debate, Greek politicians have approved draconian *austerity measures* aimed at unlocking €120bn (£102bn) of emergency loans deemed crucial for the debt-stricken country to avoid insolvency

The Guardian, 6 May 2010

"IRISH PROTEST AGAINST AUSTERITY MEASURES"

Guardian 27 November 2010

A dictionary definition tells us austerity is

the condition or policy of living without things that are not necessary and without comfort, with limited money or goods (Cambridge Dictionary)

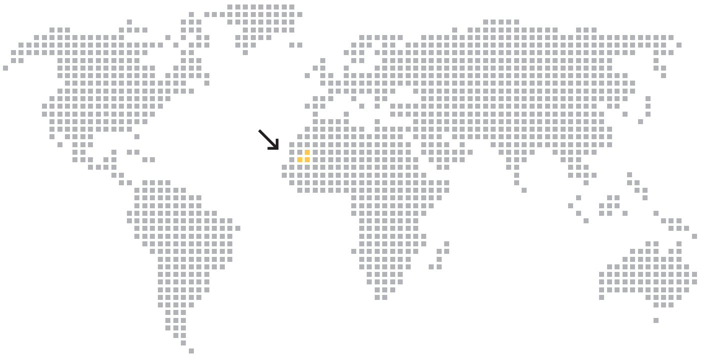
What do *you* think?

- **Who do you think is most affected when governments introduce austerity?**
- **Typically global lending institutions like the IMF will promote austerity measures to a national government as a condition for giving loans. What kind of conditions are attached?**

The Conditionality Debate

IMF conditions might involve cutting food or fuel subsidies, reducing funds for public infrastructure (transport, education, health care, water and power management), or rationing. When these recommendations are made by the IMF, they are known **as *IMF conditionalities.*** *The IMF argues that even if this is painful, these policies are necessary in the short term for a country to get out of economic crisis and rebuild its economy.*

Justice groups in the global South argue that IMF policy conditions have often hit the poorest hardest and have often increased unemployment, denied people access to social services, and ruined local industries. They highlight the example of Mali as a country that suffered harmful conditionalities.



Country Focus: Mali

- A view from Oxfam

Mali is an extremely poor country. 90% of Mali's population survive on less than two dollars a day. 20% of children will not live beyond the age of five and one in eight cannot read or write. The challenges facing Mali in fighting poverty are daunting. Yet, Mali has a democratically elected government which cares about poverty and has developed a national poverty plan. It also has good systems of financial accountability relative to other low-income countries and is economically stable.

The World Bank and the IMF made their loans conditional on the privatisation of Malian electricity and cotton industry. Cotton privatisation continues to be a condition of their lending today. This had an immediate and devastating impact - three million farmers saw a 20 per cent drop in the price they received for their cotton in 2005.

'We are forced to sell our goats to repay the credit on input for the cotton and in order to feed ourselves .'

Woman, cotton farmer

Private ownership of the Malian electricity company has resulted in dramatic price increases.

'I am living in a council flat in Bamako with my wife and my two kids. Energy prices increased so much with privatisation, that we now often use gaslight. I am one of the better off in Mali, if I cannot pay, who can? This situation is distressing, especially for the majority of the population who simply cannot afford access to water and electricity.'

Mali man, speaking 2006

In 2005, President Amadou Toumani Touré of the Republic of Mali said:

'Often programmes are imposed on us, and we are told it is our programme…People who have never seen cotton come to give us lessons on cotton… No one can respect the conditionalities of certain donors. They are so complicated that they themselves have difficulty getting us to understand them. This is not a partnership. This is a master relating to his student.'

(Source: Kicking the Habit, Oxfam 2006)

Some views on policy conditions:

United Nations,

'Each country has primary responsibility for its own economic and social development, and the role of national policies and development strategies cannot be over-emphasised'

The Africa Commission

(set up by the UK government in 2005),

'History has shown us that development cannot and does not work if policies are shaped and forced by outsiders'

Néstor Kirchner

Country Focus: Argentina

- A view from Christian Aid

So what happens when a country refuses to agree to IMF conditionalities?

Christian Aid reported on how this happened in Argentina:

In December 2001, the Argentine government fell amidst mass protests, rising unemployment and the collapse of the peso. In the midst of economic turmoil, Argentina defaulted and announced that it would no longer repay its public external debt.

Argentina's deep economic decline continued following the default. By 2002, the economy was at rock bottom, with first-quarter GDP down by 16.3% on an annual basis. The banking system had collapsed and bank accounts were frozen. Official unemployment peaked at 21.5% with another 20% underemployed. More than half the population had sunk below the poverty line.

Throughout this period, Argentina was negotiating with the IMF for a rescue package that would help the economy recover. But the IMF continued to recommend the same harmful conditions as previously. On 25 May 2003, Néstor Kirchner was sworn in as President. He pledged *'not to return to paying debt at the cost of hunger and exclusion of Argentines'.* He appeared to be prepared to stand up to the IMF by refusing to implement at least the most harmful policies it was pushing for. Kirchner announced that the government would offer only about 25 cents on the dollar to the private holders of its defaulted debt. After much complaint and lobbying, a large majority of Argentina's creditors surrendered their claims before the deadline of 25 February 2005 in exchange for new bonds worth roughly 35 cents on the dollar.

Argentina had broken the rules in a spectacular way: a huge sovereign debt default, combined with a refusal to bargain with creditors, and a dangerous confrontation with the IMF and its backers. The experts predicted that Argentina would suffer severe long-term consequences, such as a long drawn-out depression and isolation from international markets. But the result has been quite the opposite. The growth of the economy has surpassed all expectations. Within a few months of the default, economic recovery was underway in Argentina. The economy grew by 8.8% in 2003 and 9% in 2004 and is still going strong since the successful debt restructuring. Unemployment dropped from 14.55 in 2003 to 12.1% in 2004. Investors have started to return, especially after a bond rescheduling in April 2005. In 2006 Kirchner paid off the IMF ahead of schedule.

Adapted from Christian Aid

Rich world – Poor World?

Some of the austerity measures agreed to by Ireland as part of Ireland's IMF/EU loans include:

- Social welfare rates are reduced including cuts in disability allowance and the pension for blind people
- Those on low incomes have been brought into the tax net (Entry point to tax is changed from €18,300 to €15,300)

Social justice groups responded that it is unacceptable that Governments should target the sick and the vulnerable to rescue Ireland while many of those who are among Ireland's richest and who contributed to the current crisis are let off scot free. Others argue that Ireland had it too good for too long and now it's time to pay the price for everyone's reckless spending. We all gained from the good times and now everyone must pay the price.

What do *you* think?

Why not default?

Country Focus: Ecuador

A view from David McWilliams: *Full article is available at http://www.davidmcwilliams.ie/2011/03/07/claim-the-moral-high-ground*

In 2007, President Rafael Correa of Ecuador – a former economics professor – established a debt audit commission, saying his most important debt was to the people of Ecuador. In 2008, the commission reported that repaying Ecuador's debts had caused "incalculable damage" to the people and environment of that country. As a result, Ecuador defaulted on some of its 'toxic debt'.

Interestingly, the sky didn't fall in. On the contrary, the country reported 3.7% growth in 2010 and is forecasting 5.1% growth in 2011.

The bond default was part of social change in Ecuador, one of the poorest countries in the world. The socialist president has focused on education and infrastructural development as his priorities. The number of children in education has risen from 77% in 2006 to 86% in 2010 and the country is engaged in hydroelectric schemes and road building to improve the economy's growth prospects.

Most importantly, the country is back doing business and raising funds on the international market again. And there is strong demand for Ecuadorean bonds again – just two years after a 'will not pay' repudiation rather than a 'cannot pay' default. The market has moved on, and so has the country.

↘ What do *you* think?

The Ecuador default caused lots of debate.

- **Does Ecuador set a good or bad example for other indebted countries?**
- **What would happen if all indebted countries followed this route?**

What happens if borrowing governments and the IMF don't agree?

It can be difficult to decipher who is the driving force behind economic decisions – the lenders or the government – when lending conditions are set out for a country to follow.

What happens if a government doesn't agree with IMF policy conditions?

Country Focus: Zambia

- A view from ActionAid

ActionAid highlight that:

Many social sectors central to development have been negatively impacted by IMF policy conditions. ActionAid and the Education For All Campaign argue that tight macroeconomic policies promoted uniformly by the IMF across different countries - despite unique and specific challenges in each country - have prevented Southern countries from investing in education. They highlight how the IMF has made it 'difficult or impossible to provide education for all citizens. Many [governments] are therefore unable to meet their obligation to fulfill the fundamental right of free, basic education for all children, despite their commitment to do so in international agreements such as the Millennium Development Goals and under their own constitutions. Their report highlights the real life impact of this on children's education including a ban in 2004 on hiring teachers in Zambia as a result of an IMF policy condition on the public sector wage bill, at a time when Zambia was highly indebted (with the IMF as one of their major creditors). This meant leaving thousands of teachers unemployed and a pupil–teacher ratio in Zambia of 100 to 1 in some schools. Conservative estimates from justice groups at the time suggested that a further 6,000-7,000 teachers are needed if a basic desired student–teacher ratio of 40-1 was to be achieved.

In Zambia, the IMF changed its position due to public pressure, and relaxed the ceiling on the public sector wage bill to 8.11% of GDP in 2005. This and an emergency relief package provided by the Dutch government, enabled the government to employ an additional 5,000 teachers.

What do *you* think?

- **The Zambian government insisted on protecting children's right to an education. Was this the right thing to do?**
- **Why is investment in education so important for a country like Zambia?**
- **Why do you think the Irish government has given priority to education in its Aid programme in Zambia?**
- **The Irish government is a member of the IMF, what should it do about policy conditionalities?**

Fourteen year old Naomi Isaac is a Grade Five student in a community school, near her home in Senanga district, where she lives with her mother, three brothers and a sister. Naomi is determined to get a good primary-level education as she wants to attend secondary school and eventually qualify as a nurse.

When Zambia became independent in 1964, just over 50% of children were enrolled in school, and only 10% of those completed primary school. In 2002, with donor support, the Government abolished fees for primary school attendance leading to a huge expansion in enrolment. Between 2000 and 2008, enrolment in primary education grew by 1.3 million children.

Naomi Isaac, a student in Maxamaedi community school. Photo: Aidan Mulkeen.

Working with the Government and non-governmental organisations, Irish Aid provides grants to almost 8,000 government and community schools for the provision of books, desks, teaching materials and small maintenance funds.

Source - http://www.irishaid.gov.ie/article.asp?article=1669

Putting people before power?

In response to these debates, the Debt and Development Coalition Ireland is calling for

- lenders be made responsible for the loans they give, rather than passing on the costs to the public
- borrowers accept money on a transparent basis for loans that benefit their nations
- A just financial system through tough regulation to ensure banks do not lend recklessly and excessively
- Action against unjust debts by:
  a) publicly auditing all debts,
  b) cancelling unjust and corrupt debts,
  c) cancelling remaining debt on the basis of the resources a government needs to provide essential services,
  d) treating all foreign lenders on an equal basis.

What do you think about these solutions?
What would your solutions be?

To learn more about Debt check out www.debtireland.org

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