

4 *Debt Advocacy in Practice*

In order to act on this issue, we must both understand the arguments of those who oppose cancelling debt and have ready our own powerful arguments.

ARGUMENTS AGAINST CANCELLING DEBT

- 1 Future lending will be endangered, as creditors will fear losing their money in the future.
- 2 It will cost too much.
- 3 It sets a dangerous precedent of letting foolish economic policies go unpunished. It will encourage more reckless borrowing in the hope of future debt relief. This danger is often called 'moral hazard'.
- 4 The money released by debt cancellation would only be spent by corrupt governments for their own gain or on arms or palaces, so it would not benefit the poor anyway.

In answer to these arguments, here are some points that can be made:

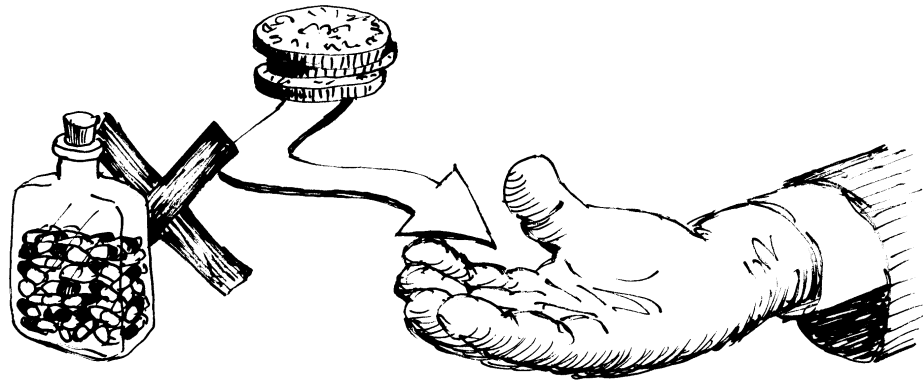
- 1 It is a fact of life that businesses and individuals sometimes fail. That is why we have bankruptcy laws: the mess is sorted out in an orderly way, and trade and finance do not break down as a result.
- 2 It is already recognised that developing countries' debt is worth only about 30 per cent of its face value. If it were written off over 20 years, it would cost less than \$4 per year for each person in the creditor nations.
- 3 This 'moral hazard' argument is one-sided, as the lending was often reckless and set a bad precedent! Surely it is not unjust to have it penalised now.
- 4 This is a serious argument. However, since the poorest countries will need aid and development loans for the foreseeable future, there will be plenty of scope for their own civil society and outside donors to monitor the use of these funds. If this process is led by civil society in the country concerned it can help to strengthen democratic participation, forcing governments to be more accountable and reducing the opportunity for corruption. The Poverty Reduction Strategy Paper (PRSP) Process (see SECTION 6) is a move towards increasing accountability and ensuring civil society participation in economic planning.

ARGUMENTS FOR CANCELLING DEBT

■ Basic justice:

- The way interest rates were raised to very high levels in the 1980s was unjust. In paying these rates, borrowers have already paid back much more than the original loans.
- By organising the world trading system to their own advantage, the industrialised countries make it difficult for the debtor countries to earn the income needed to pay off debts.

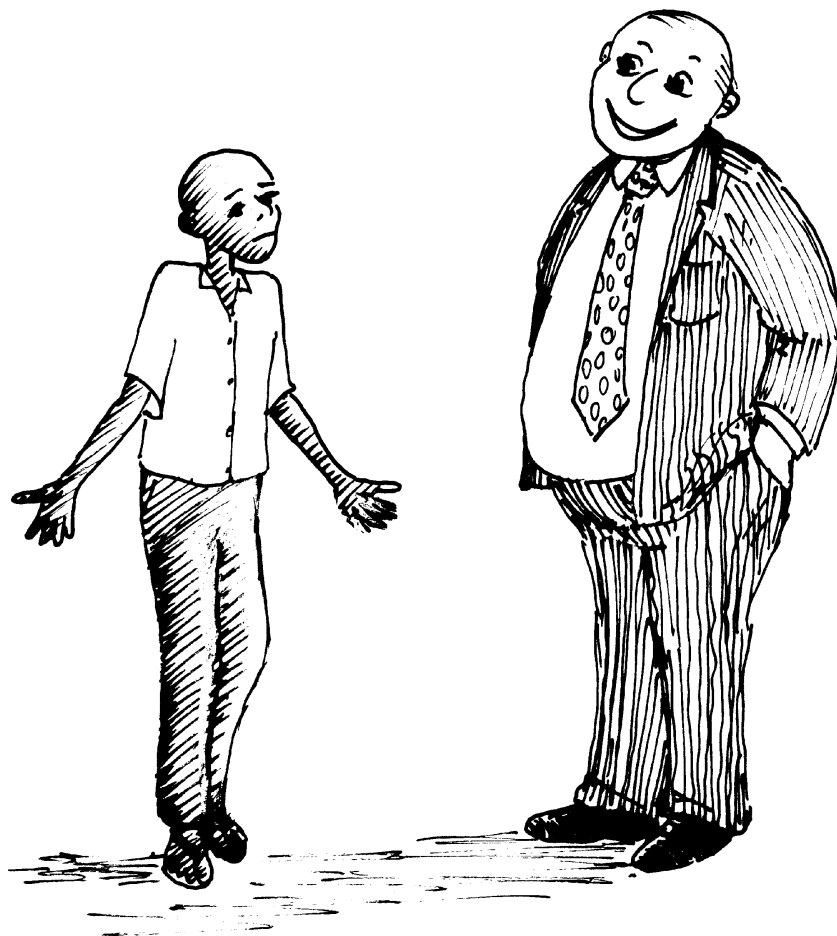
- **Common sense.** Debt repayments are diverting money away from essentials like healthcare, clean water and education. Creditors in the rich north can afford to stop taking wealth from the poorest countries of Africa and Latin America – and precious lives can be saved.



Debt repayments divert money away from essentials

- **The nature of the world economy.** The world financial system, based on lending and interest rates, is unstable. As the economy goes up, businesses tend to borrow too much in order to make the most of the prosperity. Then the economy goes down, interest rates rise and the same businesses can find themselves bankrupt. The root problem is that people have come to expect high profits from money they invest. Ultimately profits must be earned by making good use of natural resources such as minerals, forests and agricultural land. These natural resources simply cannot be made to produce profits at the rate investors want.
- **‘Enlightened self-interest’ for the creditors.** It is in the interests of the industrialised world also, to end the unpayable debt. They lose jobs – since developing countries cannot afford to buy their exports. They suffer the impact of drug smuggling, as poor farmers resort to growing coca and other drugs-related crops. They pay for peace-keeping missions in countries where armed conflict has flared up. Poverty is one of the main causes of conflict today.

- **‘Odious’ debt.** This is a legal term, meaning that the creditors should have known how their loans were likely to be used by a tyrannical or corrupt government against the interests of the nation. If that nation then breaks free from their rulers, such debts should be cancelled. Possible examples were loans to prop up the apartheid regime in South Africa, and to the Mobutu regime in Zaire.
- **Historical precedents.** There are many precedents for debt cancellation. Italy, Japan and Germany all had debts cancelled within a few years of the Second World War ending, because it suited the other countries to have them as political allies against the Soviet Union.
- **Debts outweighed by other debts.** It can be argued that the debts owed by the developing world are small in comparison to the damage caused by the industrialised countries – not only in the past with colonialism, but also today. Environmental exploitation by multinational companies and the local élite destroys people’s livelihoods, often driving them into debt. The harm done to the environment has led to an increase in the number of ‘natural’ disasters, and these are most costly to the poorest in the world, since they are the most vulnerable.



‘Have you ever thought what it’s like to owe money you can’t pay?’

‘Not really. I don’t like to think about what I might owe.’

