Social Movements and the Politics of Debt Cancellation

Soren Ambrose
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The question of sovereign debt restructuring has come up in the last three years, primarily in response to the plight of Argentina, which in 2001 was forced into the largest governmental default in recent decades. The Sovereign Debt Restructuring Mechanism ("SDRM") proposed by the International Monetary Fund ("IMF") in 2002, while failing to win approval from the institution's board, was a very narrow response to a narrowly defined aspect of the global debt crisis.

This article discusses the SDRM, but is more concerned with the larger scope of advocacy on debt issues by civil society movements over the last two decades. While it does take up legal strategies being used in those efforts, it is concerned with such tactics only in the context of the urgent calls for the elimination of the destructive cycle of debt afflicting most of the countries of the Global South. Its primary concern is to make the case that governments are obligated first and foremost to protect the interests of their citizens, and therefore should use the necessary political capital at their disposal to repudiate debt payments that handcuff their capacity to improve people's lives and inhibit democratic self-determination of countries' most salient policy decisions.

I. THE REALITIES OF DEBT

External debt, arcane and dry as the subject may sound, has been a focus for activist campaigns for more than twenty years. Debt has long been a grave concern for people in the Global South—Africa, Asia-Pacific, Latin America, and the Caribbean—because it is the reason given by their governments for adopting harsh austerity programs that curtail public services and restructure economies in harmful ways. For people in industrialized countries—the Global

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North—debt is an obvious entry point in understanding the global economy, since it is their governments and the international institutions that their governments control that are receiving the debt payments and imposing conditions on countries struggling with impossibly large debt burdens.

The global debt crisis has turned the logic of development assistance on its head. For every pound that wealthy countries provide as aid to impoverished countries, thirteen pounds flow back in debt service payments. Developing countries pay back well in excess of one hundred million dollars every day. Africa, the continent worst hit by the HIV/AIDS pandemic, spends four times more on debt payments than it does on health. Africa also pays about $13.5 billion in debt service annually, while experts have estimated that the amount needed to fight HIV/AIDS on the continent is between $10 and $15 billion per year. Despite the generous rhetoric officials often use about the HIV/AIDS crisis, or more recently about the devastation caused by the December tsunamis, there is no sign that this fundamental imbalance will be addressed.

If the loans the indebted countries are now paying off had worked as intended—that is, if they had led to sustainable development—it would make sense for the South to be paying more than it receives. But the grim truth is that for over twenty years, countries have been stuck in a cycle of taking out loans to pay off old debts. And every time they do so, their governments agree to a new set of harsh economic policies. Ostensibly designed to lift the country out of debt and poverty, the universal failure of these “structural adjustment programs” (“SAPs”) since their widespread imposition in the early 1980s has exposed structural adjustment as a tool to integrate developing countries into the global economy, where they have played the role of providers of cheap commodities and labor.

A. THE PERPETUAL DEBT CRISIS

The problem of excessive external debt in Southern countries first came to global attention in the early 1980s, when the large Latin American economies—Mexico, Argentina, and Brazil—were on a course to default on their international obligations. At the time the greatest exposure, especially in Mexico, was on the part of large private banks in the United States such as Citibank and the Bank of America. Their political clout, and the fear that such massive

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defaults could destabilize the entire world economy, motivated the “international community” to take action. Its solution was to pull in the IMF, which at that time in its life was underemployed, but which had never involved itself deeply in developing countries. The IMF assembled a large loan package for Mexico that became the model both for the “bailout” loans that would become common in the 1990s (such as those for Brazil, Russia, South Korea, Indonesia, and other countries) and for structural adjustment programs.

The policy conditions attached to the loan to Mexico would appear in subsequent IMF, and later World Bank, programs throughout the world: reorientation of the economy to export production rather than “import substitution,” liberalization of trade and investment rules, privatization of government-owned enterprises, layoffs of public sector employees, cuts in public services such as health and education, reductions in subsidies, and hikes in interest rates. In the approximately one hundred countries where the standard IMF prescriptions have been imposed, debt burdens have skyrocketed, the gap between rich and poor has widened dramatically, and in many places the standard of living for the majority of the population has dropped precipitously.3

The loans to the large Latin American countries in the early 1980s gave the governments cash to pay off their private creditors. With that, the Northern media and decisionmakers declared the “debt crisis” over. But for most of the world the debt crisis has not ended. The Latin American giants were the first to be driven toward default because of the size of their economies and because they had been targeted by Northern, and especially US, banks for large development loans over a period of years.4 The timing of the crisis was not random: it followed the dramatic hikes in interest rates by the Federal Reserve during the last years of the Carter Administration. In 1980, when the base US lending rate hit 21 percent, governments around the world were thrown into fiscal crisis. The Latin American countries had the largest loans outstanding to politically influential banks, but throughout Africa, Asia-Pacific, and the Caribbean, the same crises were occurring, albeit on a scale less threatening to Northern financial interests. The oil price hikes orchestrated by OPEC in 1973 and 1979 had a similarly devastating effect, both on non-oil-producing countries

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3 For a comprehensive charting of how structural adjustment programs have caused these impacts, see Structural Adjustment Participatory Review International Network, Structural Adjustment: The SAPRIN Report—The Policy Roots of Economic Crisis, Poverty, and Inequality (Zed 2004). The book highlights examples from countries in which a four-year initiative undertaken jointly by civil society organizations, the World Bank, and national governments studied the cause and effect relationship of IMF/World Bank policies and impact on poverty. Those countries include: Argentina, Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mexico, the Philippines, Uganda, and Zimbabwe.

that had to part with hard currency resources to keep their economies running, as well as in oil-producing states where corruption accelerated or civil wars escalated.

Since the beginning of the structural adjustment era in the early 1980s, impoverished countries have continued to wallow in debt, as well as continued to ply the treadmill of loans, conditions, rescheduling, and more loans while poverty intensifies. Mexico, which was identified as having nearly recovered in the early 1990s, was hit by its “peso crisis” in 1994 and had to borrow an unprecedented fifty billion dollars and accept conditions similar to those imposed in 1982. Brazil likewise was forced to accept an IMF bailout package in the late 1990s, and Argentina’s complete economic implosion in 2001 after serving as the IMF’s model student for years is well known. The “miracle economies” of South Korea, Thailand, Malaysia, and Indonesia were in 1997–98 at the center of the biggest international economic scare since the Great Depression, and are only, in the last two years, extricating themselves from the web of controversial and damaging conditions insisted upon by the IMF as they took out over $120 billion in bailout loans. And during this entire period, the less wealthy countries throughout the developing world were caught in similar, less-publicized traps of borrowing, repaying, rescheduling, and extensive and endless conditions.

External debt harms countries in two ways. Diversion of resources that could otherwise be used for public services and poverty eradication is the more obvious one, and is frequently the focus of debt cancellation campaigns. And indeed, this diversion alone should be grounds for cancellation of debt in deeply impoverished countries that should be feeding, housing, and educating their people rather than shipping 25 percent—and sometimes more—of their national revenues to wealthy Northern institutions. But probably more important is the inextricable link between debt and countries’ vulnerability to the demands of

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5 For example, Nigeria and Venezuela.
6 For example, Angola.
7 See Carlos Heredia and Mary Purcell, Structural Adjustment in Mexico: The Roots of the Crisis, in Structural Adjustment and the Spreading Crisis in Latin America (The Development GAP 1995), available online at <http://www.developmentgap.org/crisis.html#Mexico> (visited Feb 17, 2005).
8 See Shawn Donnan and Taufan Hidayat, Relief and Resentment as Indonesia Prepares to Graduate from IMF-dictated Reform Programme, Fin Times 12 (Dec 19, 2003); and Philip Bowring, Turning Point for Globalisation: A Signal from Thailand, Intl Herald Trib 6 (Aug 7, 2003).
9 For example, Oxfam International reports that in 2001, Niger, rated second lowest on the UN Human Development Index, was spending “over a quarter of its revenue on debt,” and Zambia spent “a quarter of its national budget” on debt in 2001. See Oxfam, Debt Relief: Still Failing the Poor 2, available online at <www.oxfam.org/eng/pdfs/ pp0104_Debt_relief_still_failing_the_poor.pdf> (visited Feb 17, 2005).
multilateral creditors. An indebted government, viewed by private creditors as not creditworthy, has little choice but to obtain a loan from the IMF or World Bank if it wants to remain part of the global economy. Many countries have signed up for multiple structural adjustment loans over the last two decades, but no proof has emerged that more is better. The requirements of the IMF and World Bank constrict economies and hit the most vulnerable people, especially women and children, with disproportionate ferocity.\(^\text{10}\)

It may be argued that it would be irresponsible of the international financial institutions ("IFIs") to make loans to governments without some assurance that the funds would not be lost to corruption or wasted in a context of unworkable economic policies. Very true, but the question is: what really are sound economic policies?\(^\text{11}\) The institutions’ response is predictable, but the fact that more than twenty years of structural adjustment programs yielded no proof of poverty reduction, wealth accumulation, or recovery from economic crises should make us question their wisdom. Is it possible that the IFIs simply do not know what works in developing countries? Or is it that what would work for developing country economies will always be subordinated to what serves the interest of the most powerful forces in the global economy? Could it be that a greater degree of flexibility—call it policy sovereignty, perhaps—is required if governments are to find a model that works for their countries? So long as the IMF and World Bank—or, more to the point, the G7 governments that control them—are calling the shots, we will never be able to answer these questions.

Until the multilateral debt burden of the world’s most impoverished countries is eliminated, the hundreds of millions of people living in those countries have little practical hope of having any sort of voice in determining the economic policies they live under, and little chance of seeing those policies structured to work in their interests. Multilateral debt looms as the most important category of debt because the IMF, World Bank, and regional development banks are accorded the status of preferred creditors, meaning that governments are legally bound to prioritize payments to them over payments to bilateral or private creditors. This advantage gives the institutions extra leverage in imposing conditions and extracting payments and good behavior. Even more importantly, the IMF has, by custom rather than by any formal legal agreement,
been designated by creditors as the “gatekeeper” for development assistance. This means that a government with questionable creditworthiness will only be considered eligible for grants, loans, or credits once the IMF has signaled its approval of the government’s economic program, usually by releasing funds under one of its formal assistance packages. The power of the IMF thus goes well beyond the amount of money it lends, which is in fact relatively small in global terms. The IMF is thus the most powerful arbiter of the economic fate of most of the countries of Africa and the Caribbean, and a large number of countries in the Asia-Pacific region and Latin America.

II. POPULAR CAMPAIGNS FOR DEBT CANCELLATION

It did not take long for people living in the countries forced into agreeing to structural adjustment programs to make the connection to the tremendous debt burdens attributed to their countries. Demands for debt cancellation were part of most, if not all, of the campaigns and protests against economic austerity programs from the early 1980s onward. Networks of organizations working in different countries, such as the Debt Crisis Network in English-speaking countries, came together to share analysis and create joint strategies that included both Northern and Southern countries. During the 1988 IMF and World Bank annual meeting in West Berlin, the largest ever demonstrations against the organizations occurred and the top demand of the demonstrators was debt cancellation.

The focus on debt that informed much of the economic justice activism came into its own in the mid-1990s with the formation of the global Jubilee 2000 campaigns. The idea, born in the United Kingdom, was to make use of a gimmick that would have global appeal over several years, the advent of the new millennium, to advocate that the world take stock of its current condition and remedy the injustices that contributed to poverty. Jubilee 2000 campaigns called for a “one-off” cancellation of debts attributed to developing countries by the end of 2000, in the spirit of the biblical notion of the jubilee, which called for a

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13 See the de facto manifesto of the West Berlin demonstrations, A.G. Grauwacke, We Will Disrupt this Conference!, available online at <g8resist.kommunikationssystem.de/trapese/content/txts/past%20mobilisations/Berlindoc__Read_Only_.pdf> (visited Feb 17, 2005).
reckoning every fifty years, at which time slaves were freed, farmlands allowed to
lie fallow, and debts forgiven.\footnote{For the Jubilee campaigns' use of this verse, see <http://www.jubileeusa.org/jubilee.cgi?path=/jubilee_congregations> (visited Feb 17, 2005).}

The mass action that the campaign called for was a recognition that appeals
to compassion and descriptions of the catastrophic impact of debt alone were
not going to convince those with power to take the necessary steps to end the
crisis. The key, as in most serious political campaigns, was to mount enough
public pressure to force politicians to take action.

The campaign took off quickly in the UK, winning the active involvement
of most of the mainline Christian religious denominations.\footnote{See The Birth of Jubilee 2000, available online at <http://www.jubileedebtcampaign.org.uk/?lid=282> (visited Feb 18, 2005).} Before long, national campaigns were established in more than fifty other countries, including
the US. Even where the campaign was dominated by religious organizations,
secular groups, such as environmental, development, and solidarity organizations
also played key roles. The jubilee message did, however, make it difficult to
ignite the campaign in some Muslim countries—which was a little ironic, since
Qur'anic injunctions on debt from Qur'an are substantially more direct than
those of the Bible.

Worldwide, the Jubilee 2000 campaigns succeeded in obtaining more than
twenty-four million signatures on a petition calling for debt cancellation.
Numerous protests, lobby campaigns, vigils, and marches were held throughout
the world, targeting key national decisionmakers at IMF and World Bank
meetings and summits of the G7/G8 countries. The most visible single event
was the “human chain” surrounding of the G8 summit venue in Birmingham,
England, in 1998, an effort that required some seventy thousand participants
and forced Prime Minister Tony Blair to come out of the meeting to speak to a
Jubilee delegation to promise increased attention to debt.\footnote{Consider 16 May 1998, Jubilee Debt Campaign, available online at <http://www.jubileedebtcampaign.org.uk/?lid=280> (visited Feb 17, 2005).}

The repetition of the encirclement idea in Seattle at the World Trade
Organization (“WTO”) ministerial meetings in late 1999, involving about
twenty-five thousand people surrounding the building where delegates and
corporate sponsors were meeting one rainy evening, was largely glossed over
when the more assertive direct action maneuvers the next day captured global
attention. But Jubilee's strong presence in Seattle underlines its role in helping to
generate and launch the most visible episode in the history of the global justice
movement.

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The Jubilee movement did not win the sweeping debt cancellation it sought. But it did have a serious impact on international policy, and continues to do so. The first sign of the heat that the campaign was generating came early: in 1996, shortly after the launch of the campaign in the UK, the World Bank developed its first ever debt relief scheme, and after much lobbying managed to convince the IMF to join with it. Called the Heavily Indebted Poor Countries debt initiative ("HIPC"), the program was controversial from the start. It was widely praised for drawing virtually all of a country’s creditors into designing a solution, and some groups, including prominent members of the Jubilee campaigns like Oxfam, gave it the benefit of the doubt. But a large number of groups, including Jubilee 2000 Afrika, Jubilee 2000 UK, and the 50 Years Is Enough Network, condemned it for its requirements that countries benefiting would have to demonstrate a record of adherence to structural adjustment programs and commit to undertaking even more structural adjustment before receiving any relief. The arbitrary standards used for determining “debt sustainability,” and thus the amount of relief that would be accorded to a country, were widely questioned and dismissed by many as far too stingy to make a significant difference in the developing world’s debt crisis.17

Sustained advocacy by Jubilee campaigners resulted in the “enhancement” of the HIPC program, announced at the G8 summit in Cologne, Germany, in 1999. That move ensured that some fifteen countries were added to the six that were part of the program before that time. Some campaigners welcomed the announcement as a victory for debt campaigners, but in time most concluded that the changes were insufficient.18

Many of the Jubilee 2000 campaigns were scheduled to expire at the end of 2000. In most of those cases, successor organizations were formed and the advocacy continued, but often with less funding and less media attention. Nonetheless, the consciousness-raising accomplished by the campaigns and the reputations they had secured have created space for the successor campaigns to continue to influence many governments, and grassroots participation in the efforts, albeit without the strong participation that churches once provided, has continued to be impressive.

The most visible proponent of debt cancellation to emerge from the Jubilee 2000 UK campaign’s attempt to incorporate celebrity spokespeople has been the Irish rockstar Bono. He has continued his debt advocacy, and in fact

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17 For an overview of the critique of HIPC, see What’s Wrong with HIPC?, Jubilee Debt Campaign, available online at <http://www.jubileedebtcampaign.org.uk/?lid=97> (visited Feb 17, 2005).

intensified it, since the formal ending of the Jubilee 2000 campaigns. He has even founded his own organization, DATA (Debt, AIDS [or Aid, depending on its campaigns at any given moment], and Trade—Africa). While DATA has earned a dubious reputation within the community of economic justice advocates, Bono's capacity to reach and influence Republican officials and lawmakers in the US, even as the Bush Administration has been most fiercely criticized as "unilateralist," has been unique. His positions do not always match up with, for example, those of the Jubilee USA Network, but he has managed to keep the issue in the headlines.

The work of DATA and the Jubilee successor organizations has now set the stage for what could be a historic agreement on cancellation of multilateral debt. The politics of the issue are being played out within the UK and US governments, within the G7 countries, and now in the discussions over assistance to the tsunami-affected countries. Activists were surprised at the momentum generated at the G8 Summit in 2004, and had hoped, in vain, to see an agreement reached at the October meetings of the IMF and World Bank. The momentum still seems to be in place, however, and substantial campaigns, such as that led by the Make Poverty History coalition of NGOs in the UK and the Jubilee USA Network's in the US, are being mounted in the G7 countries to try to ensure that a breakthrough is realized at the 2005 G8 summit in July in Gleneagles, Scotland.

A. Jubilee South

One of the most significant developments during the Jubilee 2000 campaigns was the formation of the Jubilee South coalition. A significant number of activists with organizations based in the Global South determined that a separate voice for their agenda was needed after a series of disagreements with some of the better-funded Northern campaigns. Of course, no country or region is monolithic in its approach to a political problem, but a tendency for Northern campaigns to focus on lobbying G7 governments and legislatures was perceived as inadequate by many of the leading figures in Southern campaigns. The tendency among the Southern campaigns was to focus more on calls for sweeping, as opposed to incremental, solutions to the global debt crisis.

In October 1999, about 150 campaigners from several dozen Southern countries convened near Johannesburg, South Africa to develop a Southern-oriented Jubilee agenda. Out of that meeting the formal Jubilee South coalition was born. It continues to function today, with a secretariat based at one of the

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19 See Jubilee South's website, available online at <http://www.jubileesouth.org> (visited Feb 15, 2005).
oldest and most successful debt campaigns, the Freedom from Debt Coalition in the Philippines, and active regional caucuses in Latin America, Africa, and Asia-Pacific.

Jubilee South distanced itself from the lobbying approaches targeting wealthy governments and focused instead on organizing grassroots activists with popular education and demands that included immediate and comprehensive debt cancellation for all indebted developing countries, recognition of the historical and ecological debts owed by the North to the South for over six hundred years of exploitation, and reparations for those damages and those caused by the perpetuation of the debt crisis.

Not all debt campaigns in the Global South are affiliated with Jubilee South; some take a more conciliatory position regarding the debt initiatives coming from Northern governments and institutions. But Jubilee South has assumed a prominent position as the conscience of debt campaigns, particularly in the period after the 2000 transition in the campaigns.

1. Illegitimate Debt

The central contention of Jubilee South and its Northern allies is that the bulk, if not the totality, of the debts attributed to Southern countries are illegitimate. This conclusion is based on the following facts:

- In many cases, the principal of the loans taken out has been paid back several times over, with only the compounded interest keeping countries in debt. A letter written by Nigerian President Olusegun Obasanjo is frequently cited by campaigners: he says that during his first stint as President, in the late 1970s, Nigeria borrowed five billion dollars. So far, says Obasanjo, payments on that debt amount to sixteen billion dollars and the remaining debt is thirty-two billion dollars.20

- Many of the loans in question were made without any democratic review process; often dictators simply negotiated for funds to pay for pet projects with little consideration of the overall development impact or the prospects for repayment.

- Funds from both private and public sources were frequently siphoned off through corruption. As the recent corporate scandals in the US have demonstrated, such problems are hardly unique to the Global South. In nondemocratic, autocratic environments, corruption was often quite blatant, but it exists even in the most democratic countries. The problem in the case of

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development loans is that the people of the country are ultimately responsible for repaying the debt, even if the money was never spent in the country, and there is no bankruptcy procedure for sovereign debt. Among the most notorious examples of this problem is Mobutu, the longtime dictator of Zaïre. The legendary magnitude of corruption in his government, supported by the US as a bulwark against Soviet-supported Angola, was such that the IMF in 1982 decided to send a top-level official to Kinshasa for an extended period to investigate the fate of the loans that the IMF made. His detailed report confirmed that loans made to Zaïre were sent directly to Mobutu’s private Swiss bank accounts, with little if any of the funds ever finding their way to the borrowing country. Despite the report, the IMF and other official creditors lent nearly $3 billion more to Mobutu before his overthrow in 1997, no doubt because of the interest on the part of those who controlled the institutions in maintaining Mobutu’s regime. Soon after Mobutu’s departure, IMF officials informed the new government that no assistance, and more importantly, no signal of approval to other aid agencies would be forthcoming until the country cleared over $10 billion in arrears.

- Many of the projects funded by international aid have failed to deliver the benefits promised or turned out to be boondoggles (such as a nuclear power plant built on a fault line in the Philippines and never used). The structural adjustment loans that have manifestly failed to deliver on their promises continue to increase debt burdens, with no opportunity to hold the institutions that insisted on the conditions accountable for the outcome. Regardless of the results of a loan, governments have no recourse to claim even partial exemption from repayment. Since there is no status for national governments analogous to personal bankruptcy, the debts stand until paid.

- Even in the case of successful development loans, the bulk of the money involved often ends up in the pockets of contractors from Northern countries. Indeed, much bilateral aid is “tied,” meaning that the recipient is obligated to use some of the funds to buy products and/or services from the donor country. The World Bank assists client countries with procurement, through offices dominated by Northern business interests that are fed important information that allows them to position themselves as the most appealing

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23 For more information, see the Freedom from Debt Coalition in the Philippines, *Debt and Destruction*, available online at <http://www.freedomfromdebtcoalition.org/main/pages/000310.php> (visited Feb 16, 2005).
bidders. In fact, the Bank has long promoted itself to the US Congress on the basis of the amount of money it ends up generating for US contractors; for many years the amount of World Bank loan money coming into US businesses exceeded the amount Congress allocated to the Bank by a substantial margin.

- The questions of historical and ecological debt pose profound moral questions about the balance of costs and benefits over the years between North and South. For some, the questions of uncompensated exploitation—slavery; theft of gold, oil, tin, diamonds, and other valuable resources; human rights abuses and political repression during colonialism; devastation of lands and waters by petroleum companies—make the case for a reversal of the debt burden hard to deny.

### III. THE DOCTRINE OF ODIOUS DEBT

Many campaigners have tried to use the notion of *odious debt* as a legal argument for cancellation of developing countries’ external debts. A debt is considered to be odious if it meets two thresholds: (1) the debt was contracted without the informed consent of the country’s people or their representatives; and (2) the funds in question were used for purposes that contradicted the interests of the general population.

The doctrine of odious debt was first employed by the United States government after the Spanish-American War (1898), when it declared the debts ostensibly owed by the former Spanish colonies of Cuba and Puerto Rico to Spain to be null and void on the grounds that the supposed loans were actually funds used by the Spanish to oppress the colonized peoples. The Spanish government contested the US position, but, having been defeated in the war, was in no position to persuade the emboldened US government. The doctrine was later codified by Alexander Sack, a Russian who was perhaps the preeminent expert on public debt and state succession in the period between the world wars. His work was used by the Costa Rican government in its successful effort to disavow debts incurred by an overthrown dictator to British and Canadian companies, a case that was submitted to arbitration by US Chief Justice William Howard Taft, who decided in favor of Costa Rica in 1923.

The doctrine fell into disuse and has not been explicitly invoked in several decades. Recently, however, the US government argued for cancellation of the

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25 Id at 164–66, 233–34.

26 Id at 167–68 (using the “odious debts” theory to absolve Costa Rica’s debt).
external debt of Iraq in terms very similar to those of the odious debt doctrine. When debt campaigners leapt on the US government's logic, officials tried to insist that the dictatorship of Saddam Hussein made Iraq a unique case, but the campaign launched by the Bush Administration, which sent former Secretary of State James Baker on a world tour to convince countries to cancel Iraq's obligations, did not support that stance. The French government, in objecting to the US campaign, argued that a resource-rich country like Iraq should not be granted special consideration beyond that accorded to the many deeply impoverished and indebted countries in sub-Saharan Africa, Central America, and Southeast Asia. The US responded by calling President Chirac's bluff and proposing sweeping debt cancellation for a large number of those countries.

Although debt campaigners have not succeeded in encouraging any indebted government to formally claim exemption from repayments under the doctrine of odious debts, consciousness of the logic of that doctrine enabled activists to turn the US position to the advantage of a range of indebted countries.

IV. RECENT DEVELOPMENTS IN CAMPAIGNS FOR DEBT CANCELLATION

The 2004 G8 Summit in Sea Island, Georgia prompted a proposal from the UK government to work towards 100 percent multilateral debt cancellation for a range of impoverished countries. Many observers were surprised that the US did not dismiss the suggestion out of hand. In the weeks that followed it became apparent that the US government was coming up with a counterproposal that would be consistent with its campaign on Iraqi debt and with its ideological stance on the international financial institutions, which differs considerably from the traditional view held by the UK and other G7 governments.

The UK's proposals call for the G7 and other wealthy countries to finance debt cancellation by increasing the amount of money they contribute to the World Bank and IMF, in effect replacing the funds that those institutions would

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27 See, for example, Shihoko Goto, IMF: Rebuilding Iraq Must be Global Effort, UPI (Apr 10, 2003), available online at <http://www.upi.com/view.cfm?StoryID=20030410-125249-6979r> (visited Feb 15, 2005). US Treasury Secretary John Snow is quoted as saying: "Certainly the people of Iraq shouldn't be saddled with those debts incurred through the regime of the dictator who's now gone." Id.


no longer be able to expect from debtor countries. This stance fits into the conventional wisdom that sees the World Bank and the IMF as the best sources of development finance, and institutions that should be maintained, and if possible expanded, by the donor countries. The US, on the other hand, proposed according 100 percent cancellation of multilateral debt for a significantly larger group of countries than the UK’s proposal, but financed from IMF/World Bank resources.

At first campaigners were afraid that if a deal were reached on Iraqi debt, the US would abandon its advocacy on debt. But shortly after the US presidential election, an agreement to accord Iraq 80 percent cancellation—a substantial step-down by the US, which wanted 95 percent—was reached. And even with the election and the Iraqi debt deal over, it appears at this writing (January 2005) that the US is pushing ahead with its proposal.

Observers have had little choice, then, but to take seriously the publicly stated reason for the US’ position—a difficult effort for activists not inclined to give any credit to the Bush Administration. Treasury Department officials have maintained that the US simply wants to rationalize the development assistance system. That is, they recognize that the cycle of borrowing, rescheduling, and repayments is costly and pointless. Better to acknowledge that the claims on these countries simply cannot be paid, and that further assistance to the most impoverished countries should be in the form of grants rather than loans, no matter how generous the lending terms may be.

In essence, the Bush Administration seems to be saying that it wants to make capitalism work more smoothly in every part of the global economy. In countries that cannot survive without assistance, those funds should be made available without requiring a financing structure based on a fiction of solvency.

But suspicion of the Bush Administration’s agenda runs deep, and not without reason, given its record of strident unilateralism. European governments and civil society organizations suspect it of trying to cripple the international financial institutions—where the Europeans have at least some influence over international financial governance—by denying them additional contributions as well as the flow of repayments that debt cancellation would eliminate. There may well be some truth to that accusation. But advocates who have concluded that loans from the IMF and World Bank often do more harm than good because of

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the associated conditions are not necessarily interested in ensuring that the
institutions remain fully funded. Indeed, in the case of the IMF, the US proposal
would largely remove it from making any loans to the most impoverished
countries by shifting all the money out of its “Poverty Reduction and Growth
Facility.” Most activists would count such a move as a double victory: debt
cancelled and the IMF removed from the position of controlling Southern
countries’ economic policies.33

The competing proposals have created a division among both governments
and civil society organizations. The question boils down to whether it is more
important to preserve levels of aid, often in the form of loans with onerous
conditions, going to impoverished countries, than to achieve a sweeping
cancellation of existing debt. The US, German, and Japanese governments—the
three largest donors to the multilateral institutions—have all made clear that the
chances of getting the new allocations that would be required from them by the
UK plan to cover the cost of debt cancellation are very slim. It is not difficult,
then, to conclude that the US plan is the more realistic one—a happy enough
conclusion for those who believe that elimination of debt is worth a great deal
more than additional aid money.

The outcome of this debate may be known at the G8 Summit in July, or it
may continue to be discussed for months after that. It is entirely possible that no
deal will ever be reached, though in that case the UK has pledged to act on its
own and to try to influence other countries to join them. In the wake of the
tsunami disaster, calls for making sure that Africa is not left out, again, from the
increased generosity among donors, may serve as an extra point of pressure to
reach a deal in 2005.

A major campaign, “Make Poverty History,” has been launched jointly by
most of the development-oriented civil society organizations in the UK, and is
being boosted also by the intervention of the United Nations, which is
encouraging civil society groups across the globe to use the fifth anniversary year
of the Millennium Summit to advocate for the “Millennium Development
Goals.”34 Unfortunately, the message on debt from both campaigns is somewhat
ambiguous, particularly given a prominent demand for increased levels of aid.

33 There are, however, indications in the February statement by Under Secretary Taylor after the G7
Finance Ministers meeting that the US would want to see the IMF create a new facility that would
be empowered to monitor (and render judgment upon) economies even when the government
has no formal IMF program. By formalizing the IMF’s gatekeeper role while giving it no
obligations, such a move could be disastrous. See Statement of G7 Finance Ministers (cited in note
11).

34 See <http://www.makepovertyhistory.org> (visited Feb 17, 2005) and
But the intensified pressure generated by the campaign may well be key in yielding results this year.

**A. THE FAIR AND TRANSPARENT ARBITRATION MECHANISM AND THE SOVEREIGN DEBT RESTRUCTURING MECHANISM**

Since 2000, some debt campaigners have focused neither on lobbying Northern decisionmakers nor mobilizing Southern grassroots forces. The African Network and Forum on Debt and Development ("AFRODAD"), based in Harare, Zimbabwe, and several European debt campaigning organizations, led by Erlassjahr in Germany, have been trying to outline what the ultimate resolution of the global debt crisis should look like.35

These groups reason that even if the doctrine of illegitimate or odious debt is broadly accepted, and even if a substantial portion of debt is cancelled, developing countries will continue to require means of financing their development projects. In other words, canceling debt today does not eliminate the need to take out new loans tomorrow if a country wants to make forward progress. Anticipating that exploitation and corruption cannot be totally eliminated, these groups have asserted that what is required is a way of adjudicating questions of debt in such a way that countries can demonstrate that debts attributed to them should be considered illegitimate, creditors can argue that contracts should be enforced, and destitute nations can reduce their debt burdens when they prove too onerous to be repaid without unjustly penalizing the country's people. These proposals, referred to as the Fair and Transparent Arbitration Mechanism ("FTAP"), would make it possible, for instance, for a country to effectively declare bankruptcy, see a portion of its debts forgiven, and be restored to creditworthy status, just as is done for bankrupt individuals or companies, or even local governments, in industrialized countries like the US.

In 2002, the “international community” began to discuss some kind of arbitration mechanism in response to the massive default by Argentina. If that country was ever going to reclaim its place in the global economy, it would have to come to some arrangement with its private and public creditors that did not require full payment of all its obligations. The IMF surprised some observers by proposing a procedure by which, for the first time, the disposition of the debts of a distressed country could be decided by a majority of its creditors, rather than having to be negotiated to the satisfaction of each. This SDRM would reduce the risk that governments could be held hostage by “vulture funds,”

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investment groups that purchase debt claims on the secondary market and then sue the government for full payment, refusing to settle for what other creditors may accept. The Peruvian government was forced to pay out fifty-eight million dollars to one such fund in 2001.36

The SDRM was formally proposed by Anne Krueger, the Deputy Managing Director of the IMF, and the top-ranking US official there. She staked a great deal of her personal prestige on the idea, which was expected to be received icily by US financial interests. Indeed, it was condemned by the Institute for International Finance and other groups.37 But the proposal was kept alive by the support of Treasury Secretary Paul O'Neill.38 When discussed at the annual meetings of the IMF and World Bank, no agreement on its fate was reached. Soon thereafter, O'Neill was removed from his post, to be replaced by John Snow, who let the proposal slide off the agenda, never to be heard of again.39

The SDRM was far from a “fair and transparent” idea. The IMF itself was designated as the central authority guiding the process, despite its status as a creditor. And it fell just as short of being a genuine mechanism of arbitration, since the government of the indebted country would not have standing equal to its creditors in the process. It was more a process of negotiation among creditors, with the IMF designated to force a majority agreement at some point, acting in what it saw as the best interests of the global economy.

The FTAP, on the other hand, would consist of a panel composed of neutral parties and parties with clear sympathies with either the creditor or debtor, in equal numbers. Both creditors and debtors would be given every opportunity to make their case. The panel’s decision would be binding and would be required to take into account the interests of the people of the debtor country.

The SDRM was almost a rare instance of a forcible change in international financial arrangements imposed on powerful owners of capital by the international community, modest as the proposal itself was. The FTAP, on the other hand, would be a far more sweeping arrangement.

The FTAP has few opponents in the advocacy community, but there are very different approaches to promoting it. Campaigners in several European countries, such as Germany, Austria, and the Scandinavian countries, and the African Network and Forum on Debt and Development (Zimbabwe) have decided to prioritize advocacy for the FTAP above any other advocacy for new debt arrangements. Its proponents would not be likely to oppose any actual debt cancellation, but believe that any cancellation that occurs through means other than an FTAP represents a reinforcement of the unjust system that has come to rely on gestures of charity by governments that retain nearly absolute control over the financial and political relations between North and South.

Other campaigners view the FTAP as a fine aspiration, but an ideal which is unlikely to be approached anytime soon. When the Northern countries that control the global economy decide to institute a truly “fair and transparent” arbitration system at its center, the revolution (if you will) will have already occurred. The essence of the global economic system, from these activists’ perspective, is that it is unfairly controlled by the North. It seems exceedingly unlikely that the system will be made fair through an appeal to adopt an idealized system; rather, political pressure will have to be mounted that gives the controlling powers little choice but to accept a new and just system for ordering the global economy.

B. REPUDIATION

For many years, activists have wondered whether indebted countries could cooperate to stage a mass refusal to pay the debts demanded of them. As the saying, adjusted for inflation, maintains, “when you owe the bank ten thousand dollars, they own you; when you owe the bank ten million dollars, you own the bank.” That is, the more the institutions need your money, the greater your leverage.

Many factors have militated against any attempt to form a “debtors’ cartel.” Trade arrangements, political treaties, geographical factors, competition between Southern countries—there are many ways to divide a large group of underresourced countries.

But that does not alter the conclusion that the strongest possible response by debtor countries in the Global South is repudiation, whether jointly or singly. Only by paying off the debts completely, or, more plausibly, through a proactive refusal to participate in the unbalanced power equation, can governments begin to chart their own course and frame policies responsive and accountable to their people rather than to bureaucrats in Washington.

The cartel, once promoted regularly by Fidel Castro, has not been much discussed lately among developing countries. But recent developments in trade negotiations, and especially the successful united front that developing countries
formed to stop the WTO from advancing its negotiations in Cancún in 2003 when Northern governments were unwilling to give up their agenda, have fuelled a sense of the South’s capacity to stand up for itself. Were a group of Southern governments—for instance, the Mercosur countries of Brazil, Argentina, Uruguay, and Paraguay, several of which have held their own in negotiations with the IMF recently—to agree to take a common stand against paying the claims against them, it would be difficult for the Northern countries to simply exclude all of them from the global economy. At the least, a strong bargaining position would be established.

The Nigerian government in 2002 floated the idea of refusing to pay a portion of its multilateral debt in order to devote the resources to HIV/AIDS treatment. They were persuaded to give up the idea through a combination of inducements and threats. Given the magnitude of the crisis in sub-Saharan Africa, however, and given the warm reception to the suggestion by economist Jeffrey Sachs at a recent African Union meeting that countries consider repudiation in order to deal with that crisis and others afflicting the continent, it seems plausible that someday soon a group of African countries will succeed in taking the stance considered by Nigeria. The precedent set by such a move would have the potential to shift the entire dynamic of debt, and with it the foundations of the global economic system in the South. By taking such action, African governments could effectively locate their power to rewrite the laws of the global economy, perhaps not completely, but in a positive and unprecedented direction.

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