

A REAL SOLUTION TO GLOBAL DEBT CRISES¹

Julia Dowling[©]

In 1994, South Africa made an incredible, peaceful transition to democracy after decades of oppression through the Apartheid government. President Nelson Mandela took on the daunting challenge of reconciling the psychological trauma and physical poverty that Apartheid inflicted on its citizens. Although South Africa's emergence from Apartheid is generally seen as a success story, one overlooked challenge still remains: the bill left over from the Apartheid system.

By the time Nelson Mandela walked out of prison and assumed the Presidency of South Africa, the Apartheid government had incurred \$18 billion in debt to foreign creditors. Most of these debts were owed to commercial banks based in the United States and Europe—banks that continued to lend money to the government of South Africa even after the United Nations had condemned Apartheid as a crime against humanity. According to former finance minister Trevor Manuel, an appalling 24 percent of all taxes went to pay interest on government debt at that time.

Today's democratic South Africa should not have to pay decades-old debts that funded the oppression of its own people. But there is no mechanism in the international economic architecture to allow such countries to confront debts that they cannot—and should not have to—pay. It seems obvious that today's democratic South Africa should not have to pay decades-old debts that funded the oppression of its own people, especially as it faces a huge HIV/AIDS epidemic. Unfortunately, there is no mechanism in the international economic architecture that allows a country such as South Africa to confront debts that it cannot—and should not have to—pay. There is no bankruptcy court for countries, as there is for individuals or corporations in the United States.

Countries with legacies of illegitimate debt are not the only ones facing debt problems without real solutions: in the past year, Iceland, Greece, and most recently Ireland have all struggled with unsustainable debt burdens that have crippled their national economies and threatened global economic stability. Poor countries face an even harder situation: With the global economic crisis forcing 100 million more people into extreme poverty, governments have to choose between servicing foreign debts and meeting the basic needs of their people. Furthermore, in our globalized economy, when a country cannot pay its debts and defaults, there is a worldwide ricochet effect, destabilizing the economies of other countries.

The international financial system needs a mechanism that fairly deals with sovereign debt. Jubilee USA Network, together with many of our global partners, is advocating for the creation of an international bankruptcy court, which will bring stability to the global economy and empower poor countries struggling to pay their debts. This mechanism, called a Fair and Transparent Arbitration Process (FTAP), will end current ad hoc, unpredictable, and often chaotic debt procedures that create instability and dire humanitarian outcomes for the poorest every time a country finds itself unable to pay its debts. Currently, borrowing countries are at the mercy of the whims of their rich creditors, who play witness, judge, and jury during a debt workout.

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FTAP would provide more than stability for the international financial architecture. It would also serve as a mechanism to empower poor countries in their work toward economic justice. Currently, borrowing countries are at the mercy of the whims of their rich creditors, who play witness, judge, and jury during a debt workout. FTAP would instead create an objective and transparent way for creditors and lenders to meet with equal rights, where debts are justly renegotiated by an independent third party.

This mechanism has many possible homes. Advocates have suggested the United Nations, the Permanent Court of Arbitration, or even the creation of a completely new international body. Jubilee USA and the Zimbabwe-based organization African Forum and Network on Debt and Development (AFRODAD) discussed what this solution might look like with policymakers in Washington, D.C. From the Senate to the International Monetary Fund, everyone recognized the scale of the problem we are facing—debt crises are no laughing matter. Several policymakers agreed that there has never been a more perfect time to create a lasting solution. The moral and practical arguments for FTAP, particularly in the wake of global economic crisis, are so compelling that these policymakers are ready to work with us to fill this current void in the international financial architecture.

Whether poor countries face debts from loans made and wasted by former dictators or brought on by external shocks such as a natural disaster or global financial crisis, they need somewhere to turn when their debts are unpayable in the face of meeting their citizens' basic needs. FTAP is a needed solution that all nations should and can support. Why not create a system that promotes a just and stable international economy? With energy, enthusiasm, and innovation emerging from all sides, we can end the cycle of debt that puts us all, especially our brothers and sisters in the Global South, at risk. And the time to end debt crises is now.