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# CHRISTIAN ETHICS AND THE FORGIVENESS OF THIRD WORLD DEBT: A SYMPOSIUM

STEPHEN L. S. SMITH, CHRISTOPHER B. BARRETT,  
DANIEL RUSH FINN, ROLAND HOKSBERGEN

## Introduction

P. J. Hill, *Wheaton College (IL) and ACE President*

At the annual meeting of the ASSA in Boston, January 7, 2000, the Association of Christian Economists sponsored a panel entitled Christian Ethics and the Forgiveness of Third World Debt. Christopher Barrett (Cornell University), Daniel Finn (St. John's University-Minnesota), Roland Hoksbergen (Calvin College), and Stephen L.S. Smith (Gordon College) were the panel members, and they each gave a formal presentation summarizing their perspective on the intersection of a Christian worldview and the forgiveness of third world debt. A lively discussion ensued among the panel members and between the panel and the audience. I chaired the session and I found both the presentations and the discussion informative and felt it would be useful for the readers of *Faith & Economics* to have access to the ideas presented there. Therefore I suggested that we use the comments of Stephen Smith as a basis for an ongoing dialogue on the issue and then have the other panel participants write short comments on Smith's paper. The following represents that effort: Smith's paper followed by responses by the other panel members.



## Christian Ethics and the Forgiveness of Third World Debt

Stephen L. S. Smith, *Gordon College (MA)*

Our convener P. J. Hill has asked us to do something rather difficult this morning. Thinking about Christian ethics and debt forgiveness is difficult because in the popular mind—certainly among lay Christians who have stayed abreast of the Jubilee 2000 proposals—the debate is essentially over. Debt forgiveness is a Good Thing. After all, one of the world's most prominent economists, Jeffrey Sachs, has endorsed it. And the world's most prominent

Christian thinker, the Pope, has *also* endorsed it. What's left to say?

Our topic also is challenging because it would be relatively straightforward for any of us on this panel to rehearse for you our views on the *economics* of debt forgiveness. Relating Christian ethics and norms to this question is much more difficult, especially for economists, who tend not to be well trained in social ethics (well, I'll speak for myself at least). There are vexing issues here. Are Old Testament (OT) law and New Testament (NT) ethics applicable to contemporary societies which are neither Christian nor theocracies? What's the status of the nation before God as opposed to God's claims on individuals' behavior?

Nevertheless we'll plunge ahead. In my view the Bible does provide a useful set of norms to govern thinking about economic policy matters. The work of Oxford's Donald Hay and, closer to home, of John Mason and Kurt Schaefer (whose 1990 article in *CSR* deserves to be more widely read by Christian economists), among many others, provide compelling expositions of this view. These authors don't recommend that the US establish Christianity as the official religion, nor that OT law be applied literally—there's no danger of Muslim-style sharia here—but they do argue that Scripture reveals basic norms against which all economies and policies can be measured. They also argue that the social and natural sciences provide insight about creation, on the basis of natural revelation, and therefore have a vital role to play in informing Christian thinking. Mason and Schaefer, in particular, argue that the “foundations of Scripture's social, political and economic ethics all are laid in the Pentateuch, and are intended to inform all peoples” (Gen. 18:18). “The Mosaic law-code” is “the foundation for normative Biblical insight” from which moral principles are to be induced and held up as “light before the nations,” though the application “should be in paradigm rather than literal.”

What might these Biblical norms be? Justice, righteous-

ness and stewardship in all relationships and behavior are, at bottom, the traditional Christian answers. To go from these bedrock Biblical norms to specific policy recommendations requires some kind of intermediate set of norms, about which there is a surprising amount of agreement among Christian scholars. (Mason and Schaefer call these “subsidiary norms” (p. 54); Hay calls them “derivative social principles.”) Focusing only on those intermediate norms which seem to have the most relevance for debt forgiveness, I would highlight the following:

1. Concern for the poor. A just and righteous society should display “a special concern for those who are in need because of circumstances beyond their control,” including at least “a level of assistance sufficient for need” (Mason & Schaefer);
2. Concern for wealth creation. A just and righteous society should display ample opportunity for the application of individual talents in settings which encourage stewardship and investment for long-term prosperity, and which honor and reward work (Mason & Schaefer; see also Schneider);
3. Concern for the sanctity of covenants, honoring contracts, and not bearing false witness in any context (Mason & Schaefer; see also Grinols).

As proponents of debt forgiveness have used the Biblical concept of jubilee as a crucial element of their arguments, what the Bible says about forgiveness and jubilee is also directly relevant to the debate. What’s striking about the Biblical concept of forgiveness is that it is never understood unconditionally. God’s *love* is unconditional, and individuals are exhorted to love one another in that manner as well. But forgiveness is always linked to repentance and the restoration of right relationships between the parties involved. As one source puts it, forgiveness requires “. . . the repentant response which receives love, reappropriates relationship, and experiences restoration” (Atkinson & Field). Likewise the jubilee concept—the release of slaves from debt—has at its core the concept of restoration of right relationships—among families, and between families and the land—rather than redistribution for its own sake (Atkinson & Field). Crucially, the debt remission implicit in jubilee restores proper relationships among all households, not just between (formerly) enslaved families and (former) masters.

With all this said, I turn now to consider debt forgiveness. Large scale debt forgiveness is not unprecedented—the US led the way in 1989 when the Brady Plan orchestrated the “reduction” (i.e. straight-up forgiveness) of much Latin American debt. If anything, the debt forgiveness envisioned today by various plans might be easier to arrange. The debt involved is owed to governments, the World Bank, and the IMF, so the forgiveness they offer

could be directly covered by subsidies from rich country treasuries. It’s not, as in the Latin case, commercial debt owed to private banks that needed complicated, expensive inducements to be willing to write-off their loans.

Two basic plans for debt forgiveness are in play at present, and it will be helpful in what follows to lay out their basic features.

First, there’s the official World Bank and IMF Heavily Indebted Poor Country initiative (HIPC) established in 1996 and revised in 1999. It is limited to the very poorest countries (those eligible for International Development Association concessional assistance) and requires three years of successful implementation of Structural Adjustment Programs (SAPs) and a “proven track record in implementing strategies focused on reducing poverty” (World Bank). Debt reduction is phased in: there’s a 67 percent reduction in bilateral debt after year three, and 80 percent after year six, *if* policy is appropriate and debt is still officially judged to be “unsustainable.” (The criterion for unsustainability for most countries is that the net present value of debt be 150 percent or more of exports; the ratio may be lower for highly-open economies.) At this time seven countries have received debt reduction. For these countries aggregate debt service is now 27 percent less than *actual* payments over 1993–98 (World Bank); the reduction is greater compared to *scheduled* payments over the same period.

Second, there are the more radical proposals of the Jubilee 2000 campaign. The main Jubilee website (in the UK, where the international collaborative movement originated), advocates a “one-off cancellation of the unpayable debts of the world’s poorest countries by the year 2000, under a fair and transparent process” (Jubilee). It advocates a wider net of eligible countries—52—than the HIPC’s 41. There is no mention of conditionality of any kind on this website, though individual groups that are part of the Jubilee coalition—especially US groups—have asked for mechanisms to ensure that the benefits of debt reduction go to the poor. In the US, the legislation (the “Debt Relief for Poverty Reduction Act,” passed last October) pushed by Oxfam-America, Bread for the World, and the Episcopal Church among many, requires creation of a Human Development Trust in each beneficiary, funded with debt reduction savings, to be supervised by country governments, NGOs, business sector representatives and other civil society institutions. The Trusts’ spending is to be dedicated to micro-enterprise lending and basic social services. The literature of the US groups—some of which is well-done and informative—does not support economic policy conditionality and is highly critical of SAPs of any kind (Hart & Skipper). The US enabling legislation, however, does exclude countries which “systematically violate human rights,

support terrorism, or have excessive military spending” (Hart & Skipper). This kind of exclusion is not mentioned in the main Jubilee website.

Now, in light of the Biblical principles articulated earlier, what are we to make of the debt forgiveness envisioned in these competing plans? I make several propositions.

First, it matters a lot for the Christian assessment of debt forgiveness whether such a policy is necessary and/or sufficient for improving the economic situation of the poor in developing economies. If debt relief is necessary for improving the lives of the desperately poor, then it can legitimately be viewed as a moral imperative. Western Christians would be obligated to encourage its adoption (in the most efficient manner, of course). If it is only a sufficient condition for reducing poverty we would nevertheless be obligated to consider it. If, however, debt forgiveness is neither necessary nor sufficient for poverty reduction, the situation is much more ambiguous. Debt forgiveness would need to be evaluated relative to other kinds of assistance to the poor in terms of its efficiency, its externalities and the moral hazard it engenders.

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And, in point of fact and contrary to the claims of the Jubilee 2000 campaign, it is not at all clear that debt forgiveness is necessary and sufficient for improving the lot of the poor in many or even most of these poorest countries. It may not be necessary because it may not, in fact, be debt which prevents poor-country governments from doing the simple, inexpensive things that would most ameliorate the lives of their poorest. The chronic shambles of rural Kenyan elementary schools, for instance, has little to do with paying off debt and a lot to do with the misplaced priorities of a corrupt political regime over the past 30 years. Likewise, Pakistan’s problems with disease have virtually nothing to do with debt but arise from the government’s complete unwillingness to spend money on the rural poor rather than on, say, their atomic bomb program.

The domestic economic policies, government aims and capabilities, and cultural and religious values of the poorest countries are, in fact, the linchpins of development. If these are conducive to growth and poverty reduction, debt forgiveness will be for many countries a “second-order” concern—the country will do well over the long haul with or without it. If domestic policies are not wisely-chosen, or if government is not at root concerned with fighting inequity, debt relief may not make any difference for the poor.

One way to see this is to consider the surprising fact that the actual debt in many poor countries is quite small. For the HIPC countries the average net present value of total external debt is 125 percent of annual income; on average, interest payments as a share of exports of goods and services are only 6 percent, while total debt service payments are only 15 percent! (1995–1997 data, World Bank 1999). This is well within what would normally be considered affordable limits if an economy is managed well. That debt of this magnitude is considered intolerable means these economies are deeply, deeply mismanaged or afflicted with other grave problems. Thus, unless fundamental reforms are earnestly pursued, debt relief today sets the stage for . . . requests for debt relief tomorrow. This is probably not wise.

Neither is debt reduction a sufficient condition for helping the poor. There’s little reason to trust that many of the poorest country governments really will pass the fruits of debt reduction to the poor unless compelled to do so. (More on this point later.)

This line of reasoning is not an argument against providing debt relief. But it means that, on balance, the fundamental Christian normative concern for the poor requires us to evaluate the details of debt forgiveness very carefully. Debt forgiveness *per se* may or may not make sense—it will depend upon the externalities and moral hazard inherent in any particular plan, upon the cost and efficiency of other available policy options, and upon the mechanisms in place to shift the benefits of debt reduction to the poor.

My second proposition: debt forgiveness is not ruled out by the OT emphasis on respect for contracts. As business transactions they don’t have the nature of sacred covenants. Lending governments (and, by implication, lending nations’ citizens) *should* bear some of the cost of making unwise financial decisions. Part of the contract between debtor and lender involves the lender’s assumption of the risk that a loan will not be repaid; as Mason and Schaefer point out, to insist that a loan always be repaid is in effect to *not* fully enforce the contract and may shift the cost of the repayment onto innocent third parties.

Proposition three: if debt forgiveness is to be provided, significant conditions on it are vital. These are necessary as part of the repentance which should be intrinsic to forgiveness. Here Christian teaching dovetails with standard economic analysis, which of course also emphasizes the wisdom of putting conditions on debt remission.

Three kinds of conditionality are relevant. First, conditions need to be in place to ensure that the benefits of debt reduction really do accrue to the poor. Because this point is not insisted on by many elements of the Jubilee campaign, its absence gravely undercuts their work, in my view. The nebulous statement on the main Jubilee website asking for monitoring of governments to ensure effectiveness, for

instance, is patently inadequate (though, as noted earlier, US Jubilee supporters seem to be more alert to this point).

It's important to emphasize that this is not simply a question of worrying about the corrupt diversion of funds within poor country governments. It's a question at root of fungibility, the reality that cash-strapped governments use the extra degree of fiscal freedom provided by official development assistance—or, in this case, debt relief—to fund other, perhaps less desirable, kinds of projects instead of human and social services. Definitive studies on fungibility by Dollar *et al.* (World Bank 1998) indicate that fungibility is close to 100 percent on average across all developing countries. This wouldn't matter if country government priorities were the same as the priorities of creditor nations, but that's precisely the problem: country government priorities in many of the HIPC nations have never been in line with democratic, equity-oriented, and growth-friendly principles. Sadly, even the Trust mandated in the US legislation is vulnerable to this problem. What's to enforce that government social spending doesn't fall one-for-one with spending by the Trust? And for that matter, what's to enforce that the Trust is even funded, two or three years hence, by the monies that would otherwise have been used for debt repayment?

Furthermore, conditionality with respect to overall economic policy is equally important. Appropriate policy reform is the prerequisite for long-term growth and eradicating both poverty and the conditions which make debt unpayable. There is, I think, a definite moral hazard risk here. Debt remission without stiff policy conditions will encourage, on the margin, policies in the HIPCs which are riskier and costlier than optimal. Some countries will be more willing than before to put off difficult but necessary domestic policy reforms. If anyone doubts this, simply consider the virulence with which SAPs have been attacked, and the half-hearted way in which they have been implemented, if at all, in Africa and Latin America. (In Nicaragua, even so seemingly sensible an IMF request as that the government budget deficit be reduced is met with popular cries that "neoliberalism is death.") It is probably true that rapid debt relief would free up some private capital flows to the HIPCs, at least in the short run. But even here, long-term access to private capital depends on a stable and inviting policy environment. So on all counts it makes sense to use the occasion of debt forgiveness as a lever for policy reform that would not otherwise be forthcoming.

More subtly, over the long term, debt forgiveness may make it more expensive for other poor countries to obtain credit from official lenders like the World Bank, if these lenders themselves must pay more for funds due to heightened uncertainty about HIPC's willingness to pay. Here, again, there may be a short-run benefit of forgiveness—new

lending would appear safer because of the elimination of debt—but over the long haul, the World Bank and the regional development banks—which borrow most dollars they lend—may find themselves paying more for funds, costs which would need to be passed on to developing country borrowers. These problems are minimized with heavily conditional debt forgiveness.

It is vital to emphasize that from a Christian point of view jubilee isn't simply about restoring relationships between debtor and creditor but about restoring relationship across the wider economy as former debtors regain their positions. As it is arguably policy reform which establishes right relationships between the poor and their all-too-frequently predatory state, debt remission without policy reform is not *really* a jubilee, but merely a one-time handout. Thus the World Bank/IMF HIPC initiative, precisely because it requires a three-year upfront commitment to policy reform and credible social safety nets, is arguably superior on Christian ethical grounds to the Jubilee 2000 approach which embodies no conditions on economic policy. And by insisting on the three year performance requirement before any debt reduction is authorized, the HIPC initiative ameliorates somewhat the chronic problem in ordinary structural adjustment programs of countries agreeing to policy reforms without any intention of following through with them.

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A final kind of condition which makes sense is that no relief be provided African countries presently at war (peace-keeping duties excepted) or in a civil war. Sudan, in particular, comes to mind. It is shocking that the main Jubilee campaign website makes no explicit exception for providing debt relief to this violent and repressive government, or similar ones.

My fourth proposition: Christian understanding of forgiveness and jubilee require that we in the West remain concerned for the whole of the economic relationship between debtor and creditor nations. Thus debt forgiveness cannot be the extent of US or G-7 policy initiative with respect to Africa. The particular dangers to watch for here are aid fatigue and the limited political capital G-7 governments have to spend on promoting assistance to the poor. Because the US Congress has had specifically to authorize forgiveness of bilateral debt—and will need to do so annually for the next three years to fulfill Clinton's 1999 promise to write-off all of Africa's official debt—there could very well be a compensating reduction in ODA disbursements.

More broadly, the political debate about debt forgiveness could crowd out concern for ratifying the now somewhat stalled initiative to establish free trade between the US and Africa, which would be a real loss, in my view. Finally, concern for debt forgiveness should not divert the West from framing a generous assistance plan to address AIDs in Africa. Regrettably, it may be over-optimistic to assert that the US and other G-7 nations are capable of pressing initiatives on all of these fronts simultaneously.

To sum up: Christian teaching offers no support for unconditional debt forgiveness. It does, however, offer support for highly conditioned, prudentially-managed debt forgiveness, in the context of overall economic policies geared to promote growth and well-being. The devil is in the details, so to speak. Economists, including Christian economists, are left with the important work of sorting out for church members, citizens and policymakers alike the thorny particulars of the way ahead.

### Acknowledgment

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### **Debt Forgiveness and Poverty Reduction: Some Thoughts from a Skeptical Supporter**

*Christopher B. Barrett, Cornell University (NY)*

In the previous article, Stephen Smith offers thoughtful arguments as to why "Christian teaching offers no support for unconditional debt forgiveness," but rather supports "highly conditioned, prudentially-managed debt forgiveness." In the brief thoughts that follow, I fully endorse Stephen's core point, even as I disagree with him on some details of second-order importance. As appealing as the idea of debt forgiveness may be to the Christian—indeed to anyone espousing compassion for the poor—the connection between debt forgiveness and poverty reduction is loose at best. As I have argued previously, the case for debt forgiveness for the world's poorest countries, particularly those in sub-Saharan Africa, remains both economically and ethically ambiguous (Barrett 1999).

Three key principles should inform Christian thinking on this issue: (1) a preferential option for the poor, (2) the role of mercy and extraordinary acts of grace, and (3) the parable of the talents. The Jubilee 2000 coalition that has spearheaded high-level pressure for radical, concerted debt forgiveness draws heavily on the second of these, and I applaud that movement's courage to call for mercy. My concern is that the most ardent supporters of radical debt forgiveness spend insufficient time on the first or last principles. How do we make sure the benefits of debt forgiveness accrue disproportionately to the poor? How do we know who will "bury" debt forgiveness funds, like the third servant in the parable of the talents, and who will employ them wisely, like the first servant?

Because of my own familiarity with various African economies, I will refer particularly to the effects of debt and the likely effects of debt forgiveness on that extraordinarily impoverished continent. Perhaps the most essential point to absorb is that the debt crisis in Sub-Saharan Africa is a symptom of prolonged economic crisis, not its cause. One must therefore beware of overselling debt forgiveness as a stimulus for Africa. And one must use the opportunity of debt forgiveness to tackle African poverty at its root, in addressing the structural problems—weak education and health systems, degraded or nonexistent infrastructure, especially in rural areas, and underdeveloped financial networks—that impede technology adoption, economic growth and poverty reduction. Too many supporters of debt forgiveness misunderstand it to be the end rather than the start of an initiative to successfully reduce poverty.

One of the core points made in Barrett (1999) is that the economic evidence for debt forgiveness for Sub-Saharan African sovereign debtors is quite inconclusive. Paul

Krugman's celebrated "debt overhang" hypothesis (Krugman 1988) finds no empirical support in Africa, unlike in Latin America. Some rather crude regression results using 1983–92 data, the most current available when the analysis was originally done in 1995–6, found that in African economies external debt did not seem to serve as a tax on either investment or growth. So the empirical evidence offers little reason to believe that a reduction in either debt stock or servicing will provide significant growth or investment stimulus in these low-income nations. Rather, African debt appears primarily to tax current account receipts. As overseas development assistance funds flow in, debt servicing increases, reducing the gross transfer by about 20 percent on average. So the real macroeconomic problem of external debt in Sub-Saharan Africa would seem to revolve around relieving balance of payments constraints.

Will debt forgiveness really do that? It depends very much on the extent to which debt forgiveness—which must be appropriated by national legislatures and the executive boards of the multilateral agencies—is "additional" to other aid flows. If they just substitute for one another, then there's no marginal benefit from debt forgiveness. That's a real risk today, as real aid flows have fallen by a quarter over the past decade—and by more than that in Africa—and donors are increasingly caught in a "relief trap" in which diminishing aid flows are increasingly tied to relief efforts in "complex humanitarian emergencies." This relief trap crowds out efforts in agriculture, education, health and nutrition, and public works to address underlying structural impediments that create and perpetuate vulnerability (Barrett and Carter 1999b). The pattern of emergency, response and attempted recovery has produced a vicious cycle in which vulnerability begets reactive relief efforts that too often further undermine already-fragile market and social institutions, leaving populations more vulnerable to the next adverse shock than they were to the first. The pressing need is for reinvigorated and retargeted development assistance to firm up factor markets and crowd-in investment in poor communities. None of the debt forgiveness proposals presently under serious consideration offers a credible strategy for approaching that goal. Indeed, with all the hype surrounding debt forgiveness there is a significant risk that OECD country legislatures will think remission of bilateral debt will suffice as their contribution to combating the widespread, acute poverty that continues to disgrace modern society.

The best approach to debt forgiveness would be an indefinite moratorium on debt servicing for countries willing to commit to serious efforts to relieve poverty. This could involve a sequence of renewable four-year moratoria, renewal of which would depend on externally verifiable improvements in social indicators (child mortality, morbidity from infectious diseases like malaria or polio, school

enrollment, especially of girls, access to clean water, etc.), with a complete write-off after twenty years' continuous progress. Countries would agree to a plan involving the conversion of programmed external debt servicing into additional local currency appropriations for public services provision with reasonable prospects for reducing human suffering and for crowding-in private investment. The additionality of such funding could be assured by employing a historical benchmark (e.g., 1995–98 annual average expenditures as a percent of GDP) not subject to strategic manipulation by a state intent on circumventing the spirit of the arrangement. Such an approach would create incentives for beneficiary states to seek and find effective means to address the problems of the poor and to pursue this course for an extended period. It would obviate the problem of the fungibility of debt remission.

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**While economic growth is a necessary condition for sustained poverty reduction, it is by no means sufficient, and the growth-oriented policy reforms of the past decade in Africa have a poor track record in reducing poverty.**

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This is where I part company with Stephen Smith, who calls for using "the occasion of debt forgiveness as a lever for policy reform," where "policy reform" appears a euphemism for a particular suite of growth-oriented reforms advocated by the IMF and World Bank. While economic growth is a necessary condition for sustained poverty reduction, it is by no means sufficient, and the growth-oriented policy reforms of the past decade in Africa have a poor track record in reducing poverty. Indeed, there is some evidence from both Africa and Latin America that more heterodox approaches have been at least as successful as the dictates of the "Washington Consensus" in assisting more vulnerable populations (Barrett and Carter 1998). Our commitment should be less to any particular ideology and its associated prescriptions than to performance in assisting the poor. So rather than mandating the particular approach to be taken, conditionality should instead be associated with achieving performance targets related to improvements in key social indicators related to the well-being of the poor, of which per capita income is but one.

By way of a brief digression, I should note that there is a direct parallel to lessons learned over the past two decades in environmental management. Governments once dictated pollution abatement technologies to firms in an effort to curb emissions. This offered no incentive to innovate, and generated significant costs and relatively poor compliance records. Now, more enlightened regulators instead specify emissions performance criteria, strictly monitored and enforced. The effect has been a wave of corporate environmental management innovations that have generally curbed

compliance costs while reducing pollution. The important policy lesson is to set standards, monitor, and enforce, but give the responsible parties the freedom to innovate according to the dictates of their local circumstances. The principle needs to be applied to international efforts to reduce unnecessary poverty and suffering.

Under the arrangement I propose, countries that failed to achieve real improvements in social indicators would enjoy few benefits. The moratorium on these nations would lift and they would again be responsible for repayment. Effectively, that would mean that states not serious about poverty reduction would, through renewed net transfers to donors, underwrite efforts by states that are (or become) committed to reducing poverty among their citizens. This would create substantive, dynamic incentives for states to pursue sustainable poverty alleviation policies, thereby addressing time consistency and moral hazard problems that plague many current proposals.

Any low- or middle-income country should be eligible for this plan immediately if it can agree to a feasible poverty reduction strategy and verifiable targets. The only states that should be (temporarily) excluded are those at war, with their neighbors or their own citizens. The poor suffer disproportionately from violence and states at war are highly likely to divert debt remission proceeds to defense expenditures. States at war are bad bets for debt forgiveness. Note that this criterion leads to very different patterns of forgiveness than presently prevail. For example, Uganda, the first beneficiary of the IMF/World Bank Heavily Indebted Poor Countries (HIPC) initiative, would be ineligible at present if nonviolence were a condition. In nations at war, assistance should flow only through neutral charities demonstrably assisting vulnerable sub-populations.

The problem with many current proposals—including the legislation that passed the U.S. Congress in 1999—are that they emphasize only the creation of “human development funds” out of debt reduction proceeds, to be spent ostensibly on poverty reduction. But one must appreciate the ease with which African (and other governments) can meet fiscal budgetary or expenditure targets without actually achieving the true, intended aim of poverty reduction. As an example, Uganda, again, the first nation to benefit from 1996 IMF/World Bank HIPC debt reduction initiative, and a relatively progressive and competent state, routinely circumvents the cap on its military spending by routing defense funding through its police force. It would be a terrible tragedy if debt forgiveness were to fuel further war in Africa, where more people died in conflict during the last century than in all the other continents combined. But nothing in the proposals presently on the table prevents that possibility.

Another problem, especially with the HIPC initiative launched to great fanfare in 1996 that has since proved too slow, too stingy, and too strict, is the reliance on satisfying IMF conditionalities. Fiscal retrenchment and exchange rate devaluation remain at the heart of IMF prescriptions for Africa in its enhanced structural adjustment facility (ESAF) programs. But the problem in Africa isn't too much public spending, it's insufficient investment, whether private or public. Where low- and middle-income countries worldwide average net investment rates of more than 25 percent of GDP, Africa's is about 15 percent. Redirection of public spending, away from pageantry and armies and toward child vaccination, rural roads, and urban sewer and water systems, is more appropriate than further rolling back of states that are having a hard time already in providing basic support services for the private sector, much less in making significant progress in improving human welfare. Economic growth is indeed necessary to sustained poverty reduction. But growth is just a means to an end, not the end in itself. Moreover, African economies are so rife with structural failures that relatively doctrinaire, neoliberal prescriptions often work at cross-purposes with one another, sometimes promoting and sometimes retarding growth (Barrett and Carter 1999a). The IMF's approach in Africa has never acknowledged these basic points, imposing considerable short-term hardship on the most vulnerable in the interest of adhering to a model that sometimes but not always leads to better macroeconomic performance in structurally weak economies. Debt forgiveness should adhere to a true preferential option for the poor and not be just another instrument of inducing macroeconomic reform of the sort favored in Washington.

In summary, I am a skeptical supporter of debt forgiveness. If remission of the external repayment obligations of low-income states can be structured so as to generate sustainable increases in investment, particularly in investments directly targeted at relieving educational, health, infrastructure and liquidity constraints that disproportionately burden the poor, then the potential for doing good will be great. But given the efforts currently agreed and under high-level discussion, expectations for debt forgiveness' effects should be low.

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### On the Rationale for Third World Debt Relief

Daniel Rush Finn, *St. John’s University (MN)*

Much fanfare has rightly accompanied the declaration of the year 2000 as a year of Jubilee. Still, there are a number of confusions surrounding the Jubilee call for Third World debt relief that Christians need to resolve.

The most dramatic misunderstanding turns out to be one of the lesser problems. Many advocates of debt relief confuse the original Hebraic idea of Jubilee with that of the sabbatical year. For example, one Jubilee website explains:

The campaign is inspired by the scriptural idea of the Jubilee Year: periodically, every 7 x 7 years (i.e., 50 years), debts are forgiven and slaves set free, and “liberty is proclaimed throughout the land”. Jubilee is a time to apply self-righting mechanisms for restoring balance to society.<sup>1</sup>

In fact, the characteristic element of the Jubilee year was not debt relief. Debts were to be cancelled every seven years, during the sabbatical year (Deut 15:9; Neh. 10:31), when bond slaves were also to be set free (Exod. 21:2). The Jubilee had a more radical force in that agrarian society: the return of land to its original owners, overturning of any sales or other transfers of land over the previous 49 years.

Consecrate the fiftieth year and proclaim liberty throughout the land to all its inhabitants. It shall be a jubilee for you; each one of you is to return to his family property and each to his own clan (Lev. 25:10).

In spite of this prevalent misunderstanding, the underlying spirit of the Jubilee (as “a time to apply self-righting

mechanisms for restoring balance to society”) remains critical. In our context, the return of land after legal sale is beyond the reach of economic logic and cultural self-understanding, but the forgiving of debts of poor countries in our current context can represent such a restoration of balance. Although scholars note there is no Biblical evidence that a Jubilee ever occurred, the meaning of the occasion can nonetheless be a powerful motive force for Christians today.

A second confusion is vividly expressed in the talk about support of Third World debt relief that presumes that any debtor-creditor relation between developing nations and industrialized nations is inherently immoral. Many advocates of the Jubilee 2000 campaign excoriate the transfer of principle and interest payments back to creditor nations. One often hears the lament that debtors must pay back not only the principal but also an even greater amount in aggregate interest payments. There is, of course, an obvious naïveté concerning discounting—one that many get over when they sign their first mortgage and note the total value of mortgage payments over thirty years. More important here, however, is a critical misunderstanding concerning borrowing by poor nations.

The ethical problem is that some talk as if Christians (either personally or through their nation’s policy) ought not lend money at interest to poorer people or nations because this is inevitably unjust. As another Jubilee 2000 website puts it,

One of the closest parallels to the debt crisis is the Atlantic slavetrade. It, too, was a system of international oppression accepted for generations as a normal and necessary part of trade and life.<sup>2</sup>

Often cited is the Biblical prohibition against the people of Israel charging interest on a loan to a fellow Israelite. Overlooked, however, is the historical fact that loans in the agrarian world of ancient Israel were almost always loans of necessity, made by the better-off to the poor who through misfortune were unable to make it through the winter to the next harvest. “If you lend money to one of my people among you who is needy, do not be like a moneylender; charge him no interest” (Exod. 22:25). In this context, the prohibition against interest taking was largely a prohibition against exploiting the desperate.

In the early Church interest taking was also condemned, for a similar reason. As Augustine of Hippo put it, “Give to the man and do not turn away from him who seeks a loan. But take only so much as you have given.”<sup>3</sup> The treatment of interest taking was closely identified with the more general teaching on property holdings. God has given creation to all humanity so that human needs be met. If I have more than I need and you have less than you need, I, as a steward of God’s possessions, must share my surplus

with you. Augustine was quite typical of Christian leaders of his day in asserting that “the superfluous things of the wealthy are the necessities of the poor. When superfluous things are possessed, others’ property is possessed.”<sup>4</sup>

By the Middle Ages the two issues of lending at interest and sharing of surplus were distinguished conceptually. For example, Thomas Aquinas made a strong case for private property. Yet he stressed that for all goods “use must be in common,” in the sense understood a thousand years earlier in the Christian church: that what I have in excess of what I need must be shared if others have unmet needs—out of respect for God’s intention in creation. Aquinas’ treatment of interest taking, however, contains no reference to the poverty of debtors. Instead it is based on the “sterility” of money. Money is used up—traded away—in an exchange (similar to how a bottle of wine is used up when it is used). Thus to charge interest on a loan of money (or wine) would be wrong, since charging extra beyond getting back the things borrowed would be to charge for something that does not exist. However, lending a house to someone for a period of time would be different, since the house can be used without being used up. Thus charging extra (rent) in addition to receiving the house back after that period is not wrong. Phrasing this older view with modern words, lending capital goods can rightfully entail an extra payment while lending consumption goods must not.

The debates over interest taking in the Middle Ages are classic for their complexity. Yet the development of commercial culture made the resolution inevitable. John Calvin, of course, took a view of lending at interest that eventually (over the next 400 years) won out among the Christian churches. Lending can be a service to the borrower, who need not be exploited in the process. Eventually even the Roman Catholic church altered its view, in effect recognizing that, in the modern world, money is better understood as a claim on assets. Like the house, it produces a stream of services. Thus interest taking, within limits, is fully moral. Even the word “usury” has changed; where it formerly meant any taking of interest, it now means the charging of exorbitant rates of interest. A few Christian groups (such as the Catholic Worker movement) oppose interest taking even today, but this is the view of a tiny minority.

Thus it is a serious problem that in talk of Third World debt relief many Christians speak as if all interest taking from poorer nations is immoral. It took centuries for Christians to come to appreciate the economically beneficial role interest taking can play in the world and it would be a great loss to forget this now. A more thoughtful Christian response understands debt as part of a broader relation between poor and prosperous nations, where the burdens associated with past debt may be quite moral. This will depend on an assessment of the overall relationship—and

this requires economic (and other types of) analysis. I will not attempt to review the economic issues here, but leave it to the reader to recognize that nearly all nations (including the US) have depended upon significant borrowing from abroad in the early period of their economic development.

Turning, however, to that broader moral relationship between debtor and creditor nations, I also take for granted the judgment that wealthier nations, in particular the United States, continue year by year to offer a niggardly contribution to assist in the development of poorer countries. It is in that context that arguments for debt relief have a morally persuasive power. Strong conditionality is necessary to prevent the transfer of existing funds away from basic education and health care budgets when resources become available through debt relief. But the additional risks of moral hazard are, on balance, worth taking in light of the political difficulty we face in expanding other forms of development assistance from the US government.

In sum, we need to forgive the debt of the poorest nations, but we must exercise care as to why we do so. Doing the right thing for the wrong reason may not hurt much today but will lead to confusion about what truly is the right thing to do the next time around.

### Endnotes

- 1 <http://www.jubilee2000uk.org/main.html>
- 2 <http://www.jubilee2000uk.org/main.html>
- 3 Augustine, *Sermons*, 239.4, *Patrologia Latina* 38:1128, and in Phan, (1984) p. 229.
- 4 Augustine, *Commentary on Psalm 147*, 12, *Patrologia Latina* 37:1922, and in Phan (1984) p. 197.

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### “That the Work of God Might be Displayed”: Debt Forgiveness and Development

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In a well-known story from Jesus’ final days on this earth, Jesus encounters a man born blind. His disciples want to know who was at fault for the man’s blindness, the man himself or his parents. But Jesus is not concerned with blaming anyone. Instead, he answers, “neither this man nor his parents sinned, but this happened so that the work of God might be displayed in his life” (John 9:3). Throughout the biblical drama, God is not interested in explaining broken-

ness, but in making and working out plans for reconciliation and redemption. This is the same task to which his followers are called, and this is how we should approach the crisis of debt in the Third World. The central question about debt forgiveness is whether it will actually be a redemptive act. Put more simply, will it do any good?

Stephen Smith addresses the issue this way by clearly linking his evaluation of debt forgiveness to “whether such a policy is necessary and/or sufficient for improving the economic situation of the poor.” This approach is further underscored in his discussion of conditionality, which he strongly favors. I largely agree with Smith’s analysis, though I think he is a little too quick to reject the ideas of the Jubilee 2000 campaign and a little too supportive of the IMF’s standard package of economic policies. If the goal is to promote good development, then good economic policy is not enough; we must go beyond economic policies *per se* to ask how we can encourage debt-ridden countries to enact good policies of their own accord, without foreign imposition.

Smith is surely correct that creditor nations should condition debt forgiveness on whether the benefits of debt relief be directed toward the poor, and on the establishment of a track record of reasonable economic policy. To some extent we have the Jubilee 2000 supporters to thank for raising this issue internationally and holding the IMF accountable to the world’s poor, because the IMF’s new concern for the impact of their programs on the poor has much to do with pressure from civil society organizations like Jubilee 2000. Still, to focus exclusively on these two criteria runs the risk of addressing symptoms rather than root causes, and of missing what is really important in development. For as long as governments enact policies imposed from the outside, especially if they instinctively recoil at such imposition, then those policies will likely not work very well, nor will they likely be sustainable. The key issue is local ownership. The debtor nation, meaning not just those occupying government positions but a significant majority of the citizens, must own the policies in such a way that they themselves generate the details of the policies to fit their own exigencies. Only if this step is taken is there hope that such policies and practices will be maintained in the absence of foreign intervention.

This of course is nothing new. Development theorists and practitioners have known it for years. The question has always been how to make it happen. What is so different about the present policy environment is that the Cold War is over, making it possible to work toward empowerment of the people, citizen action, civil society promotion, and good governance without becoming inevitably tangled up in Cold War rhetoric and conflict. I believe that the recent emphasis on good governance and civil society provides

some hope that poor nations around the world can make significant progress in bringing more people into the fullness of social, political, and economic life, and, in the process, develop an internal ownership of policies and practices that spread the benefits of development to all.

Let me try to express this plainly: as nations grow in their ability to govern themselves, they will also tend increasingly to develop and implement sound economic policy, including policies directed to the poor. Essentially, this means expanding the participation of all peoples and social sectors into all aspects of governance. In forgiving debt, conditions must not only address economic policies, but, more fundamentally, how a nation is governed. This is a central theme in two recent high profile reports on poverty, one being the World Bank’s decennial report on poverty, and the other being the very recently-released *UNDP Poverty Report 2000*. Both devote major attention to good governance and the development of civil society.<sup>1</sup>

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**Smith is right that the Jubilee 2000 supporters are often too lax in doing the hard work of developing programs that actually will help. Good intentions are not enough.**

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There are important Biblical principles at work here, one of the most important being discernment. When someone, or some nation, is in trouble, as nations mired in debt are, Christians naturally respond out of love, compassion, self-sacrifice, mercy, and grace. We want to help. But while the aforementioned principles lead us to a desire to help, they do not automatically tell us how. Discernment is required. And Smith is right that the Jubilee 2000 supporters are often too lax in doing the hard work of developing programs that actually will help. Good intentions are not enough. We must also construct interventions that actually carry out a redemptive purpose. In constructing a plan, other Biblical principles come into play, such as human freedom, dignity, responsibility, stewardship, justice, and accountability to others in community. It is this set of principles that leads me to think we should condition debt forgiveness on good governance and the expansion of civil society more so than on economic policies.

A few brief examples will help illustrate the point. A few years ago I was doing a study of structural adjustment programs in Guatemala. In a personal conversation with the ex-minister of finance, he pointed out that his government’s stance with the IMF had been largely one of doing the least possible to get the loans they desperately needed. More than that, they often enacted required reforms only to the extent necessary to appease IMF officials (Hoksbergen and Espinoza Madrid 1997, p. 41).

A second example comes from recent Rwandan experience. Peter Uvin (1998) points out that, even just prior to the

1994 genocide, the World Bank and virtually all the development NGOs were writing positive reports about policy changes and progress in the economic and other development indicators they were focussing on. But Uvin argues that all the policies and organizations were never really “owned” by either the government or the people at large. They were imposed from the outside and implemented only at the margins and to the extent necessary to keep aid and loans flowing.

Third, development scholars point out that aid and loan flows to Africa have done much to create and exacerbate the injustices associated with predatory states, poor governance, and their consequent poor economic policies (Bratton and Van De Walle 1994). In this context, the IMF’s harsh policies are seen by some as a painful but necessary step to undercut the power of the corrupt leaders of neopatrimonial states.

In the first two examples, policies and programs are “enacted,” but are not really owned. Long term development prospects are not favorable. In the third example, it appears that IMF programs may actually help, but only because they impact how the country is governed, not because their economic policies are implemented. In all three situations, the character of the government and the organization of the whole society behind the policies are more important than the policies themselves.

How might debt forgiveness be structured so as to promote good governance as well as good policy, and at the same time respect the Biblical principles mentioned above? A response to this question must necessarily be sketchy in these brief comments, but I will give a few guidelines.

Debt forgiveness should be linked to the following criteria:

- A track record of achievement in traditional IMF measures like inflation and budget deficits. Such criteria should be fewer and more results-oriented than is the traditional package, to allow governments discretion and leadership in achieving these goals.
- A track record of achievement in poverty alleviation. This would typically include an expansion of health and education services oriented toward the poor. The new UNDP report notes that few nations currently integrate anti-poverty measures into their national planning.

Both of these criteria are consistent with a traditional focus on economic policies. The key difference is that the burden of policy development shifts toward national leaders, thus respecting their dignity and freedom, but also holding them accountable for results. The following set of criteria is directed at the promotion of good governance and expanded empowerment of all the nation’s people. Each

criterion below is designed both to promote increasing participation of all citizens and to develop mechanisms for holding authorities accountable to manage their trust responsibly.

- The promotion, strengthening, and inclusion of civil society organizations. Not only should government sponsored programs in such areas as health, education, and other forms of development work be undertaken in concert with civil society organizations, these organizations also should be encouraged to hold officials and governing agencies accountable to reasonable standards of integrity, fairness, and competence.
- Transparency in government affairs. The practice of so many Third World countries of budgetary secrecy must be opened up to public scrutiny if government corruption is to be discovered and minimized.
- The development of a functional judicial system that responds to national understandings of justice, law, and fairness. Impunity of those in power continues to be a worldwide problem and undermines many well-meaning and technically well-designed policies.
- Democratic choice in electing governing leaders. Elections monitored and evaluated by international and local civil society organizations is one mechanism to ensure progress in this area.

The Jubilee 2000 campaign follows all the right principles in terms of our call to help the poor of the world, but, as Smith points out, its action program falls short. The IMF program, however, by focussing more on particular policies and technical fixes, rushes in to apply its knowledge without adequately accounting for the needs of local empowerment and ownership.

Development scholars and practitioners know that development is a long, step-by-step process that must come from within if it is to be sustainable. In our efforts to help in a truly redemptive way, such “that the work of God might be displayed,” we must structure our interventions so that all of God’s people are respected and honored as image bearers, and are thus progressively encouraged to take responsibility for managing their affairs with justice and righteousness. Forgiving debts without regard to the consequences is irresponsible, though forgiving debts with discernment and purpose can be a powerful force for good. Still, as I have tried to argue, we must do it right.

### Endnote

- 1 A draft of *Attacking Poverty: World Development Report 2000* has been placed on the web for purposes of soliciting commentary. See <[www.worldbank.org/poverty/wdrpoverty](http://www.worldbank.org/poverty/wdrpoverty)>. The UNDP report, *Overcoming*

*Human Poverty: UNDP Poverty Report 2000* is just out and a summary of its themes is reported in Crossette (2000).

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