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The Arc of the Jubilee

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ABSTRACT

The Jubilee 2000 movement, which called for the cancellation of the foreign debts of the poorest nations, reached its zenith in the late 1990s and 2000—and then, by design, shut down. In the space of a few years, it became one of the most successful international, non-governmental movements in history. As part of a larger, ongoing project to understand the consequences and lessons of the episode, this essay attempts to provide thumbnail assessments of Jubilee 2000 from several perspectives. The essay deemphasizes anecdotes and statistics in favor of major themes.

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The Jubilee 2000 movement, which called for the cancellation of the foreign debts of the poorest nations, reached its zenith in the late 1990s and 2000—and then, by design, shut down. In the space of a few years, it became one of the most successful international, non-governmental movements in history. As part of a larger, ongoing project to understand the consequences and lessons of the episode, this essay attempts to provide thumbnail assessments of Jubilee 2000 from several perspectives. The essay deemphasizes anecdotes and statistics in favor of major themes. The author welcomes comments on this initial foray into this rich subject.

The Campaign in Historical Context

The movement to cancel the sovereign external debt of poor nations neither began nor ended circa 2000. Rather, the Jubilee 2000 movement was one important passage in a longer score. In 1985, in the throes of the three-year-old global debt crisis, secular and religious groups in the U.S. founded the Debt Crisis Network to advocate for debt relief from public and private creditors. A year later in the UK, Oxfam ran a potent national campaign to broadcast the message that "for every £1 we all gave for famine relief in Africa in 1985 the West took back £2 in debt payments." And even after the symbolic end of the Jubilee 2000 campaigns, initiatives for debt relief for the poorest nations continue.

At least through 2000, the global movement was very much driven by a British Invasion. Oxfam's early pressure turned the UK government into the strongest advocate for debt relief among the Group of Seven leading industrial nations (G–7). UK advocacy led in 1996 to the launch by the World Bank and International Monetary Fund (IMF) of the Debt Initiative for Heavily Indebted Poor Countries (HIPCs), the first comprehensive creditor response to the debt troubles of the poorest nations. The Jubilee 2000 campaign, which brilliantly linked an Old Testament norm of periodic forgiveness and liberation with a compelling deadline, was also made in the UK.

Not a Crisis, but a Quagmire

The problem to which the Jubilee movement responded was both of a piece with the global debt crisis and distinct from it. The popping of the developing-country credit bubble in 1982 left two main groups exposed: better-off developing countries such as Brazil and Mexico (middle-income countries) that had been viewed as relatively creditworthy; and the commercial banks in Japan and the West that had viewed them that way. Low-income countries, including most of Sub-Saharan Africa, felt the bubble too: in 1982, the countries that are now labeled HIPCs paid half their debt service (principle and interest) to private creditors. But as governments and the international agencies they financed, including the IMF, lent more to HIPCs, in part to help them repay private banks, these *official* creditors came to dominate the troubled debt portfolios of the poorest nations. This pairing—the richest governments as creditors and the poorest as debtors—is unique in the long annals of international lending.

As official agencies became the majority creditors to the HIPCs, a trend within that trend set up a fateful collision between NGOs and multilateral lenders, notably the IMF and World Bank. Over the 1980s and 1990s, multilaterals came to rival bilaterals (individual governments) as creditors to the poorest countries. Bilaterals increasingly wrote off debts and delivered their aid increasingly through grants. But multilaterals could not shift to grants without a hard-to-achieve consensus among their shareholders—the U.S., the UK, France, Germany, Japan, and others—nor without sacrificing the financial autonomy associated with debt service inflows. Perhaps also because they prized that autonomy, and perhaps in part because they feared tough questions about past mistakes from skeptical legislatures that financed them, the multilaterals historically insisted that all their outstanding loans were good, that all would be repaid. Their denial set them up for a collision in the mid-1990s with the just-noted forces of morality and reality, as marshaled by the NGOs.

Also unparalleled has been the *resolution* of this official debt crisis: it has taken very long, unnecessarily long. Major international debt crises have recurred about every 50 years over the last 200. On average, it has taken creditors and debtors nine years to compromise—agreeing on, say, 50 cents of repayment per dollar of outstanding debt—and so restore normal lending flows. The denouement between commercial banks and middle-income countries took a bit more than seven years to resolve (the Brady Plan for compromise came in 1989). In sharp contrast, ending the HIPC debt problem has taken 28 years and counting. Only in mid-2010, for example, did Liberia and the Democratic Republic of Congo achieve resolution.

Why the Creditors Moved Slowly

One cause of the tardiness has been that the HIPCs' official debt troubles were less a crisis than a muddle, a distinction which has been obscured by the historical intertwining with the commercial debt crisis. On the one hand, the solvency of the major creditors, from the government of France to the World Bank, was never at risk. On the other, few debtors experienced sudden stops in the flows of grants and loans from abroad, even when they chose not to service old loans. Rather, most went repeatedly to the Paris Club, the official organization of government creditors, to negotiate short-term payment rescheduling and incremental debt reductions—or quietly accepted new loans to repay old ones.

Another cause of the tardiness has been the relative powerlessness of the debtors, which left decisions largely in the hands of Northern governments, NGOs, and international agencies.

The lack of crisis conditions and the power of the creditors exacerbated a universal tendency in debt troubles: the reluctance of creditors to recognize that loans have gone bad. This reluctance manifested not as complete inaction, but, starting in 1988, as announcements at occasional G–7 summits of new debt relief plans, each of whose unrealism was attested to by its successor—that is, until the 2005 announcement of the Multilateral Debt Relief Initiative, the first plan that credibly promised a lasting resolution of the HIPC problem. The earlier plans were unrealistic in several ways: They offered to cancel far less than the 90% cancellation that seemed pragmatic, given the apparent uncollectability. The HIPC Initiative in particular "reimbursed" multilateral development banks for this relatively costless step. As

for the IMF, it "paid for" debt relief by "selling gold"—through an arcane deal in which it appeared to sell gold but didn't. In addition, despite the historical weakness of conditionality (that is, the giving of finance in exchange for promises of policy reform), the plans formally imposed conditions on debtor governments to change economic policies, as well as to develop anti-poverty spending plans in consultation with "civil society." The latter conditions, on political process, were arguably even more ambitious than the traditional, largely ineffectual conditions on economic policy.

Why the Creditors Moved Eventually

Two traits of the HIPC troubles nevertheless drove the creditors, perhaps inevitably, to cancel more and more of the debt. First was the moral difficulty of taking money from the poor. To most human beings, refusing to give to a beggar is bad, but taking money from her is worse. Yet the two acts, one of omission, one of commission, have the same effect. That asymmetry in human intuition was the fundamental source of the debt lobbyists' leverage and religious resonance. Thus officials found it much easier to oppose debt relief in private than in public. Technocratic insistence on keeping rich creditors whole by plucking scarce funds from the hands of indigent nations was unseemly, even shameful.

The second trait driving towards cancelation was, paradoxically, that the HIPCs were not repaying the debt, and evidently could not. By the late 1980s, the HIPCs, most of them in Sub-Saharan Africa, were paying just 40% of debt service due; the rest of the payments were forgiven or rolled over at the Paris Club, or quietly deferred, building up arrears. The HIPCs were the sovereign equivalent of bankrupt. Treasury officials in creditor countries who prided themselves on hard-headed financial probity gradually concluded that debts that could not be paid should be dropped.

Multilaterals and NGOs Exaggerated the Cost/Value of Debt Relief

There was in the jousting between multilaterals and NGOs a perhaps unwitting irony: the two sides agreed on a fiction that served their respective arguments. NGOs dramatized the *value* of debt cancellation, the billions of dollars that could be freed up to build schools and clinics for the poor. In parallel, multilaterals dramatized the *cost* of debt cancellation—then, after flipping to doing it, borrowed the NGOs' arguments to highlight the value. Both sides publicly downplayed the implications of the pragmatic bankruptcy perspective: that cancelling the debts of a bankrupt neither costs much nor is worth much.

To be fair, both sides called for new aid as well as debt cancellation, so that lenders could formally maintain outflows even as they reduced inflows. Combined with this new funding, debt relief did indeed cost money and could indeed increase social spending. The impacts of this aid, however, were widely misunderstood. Under the HIPC Initiative of 1996 and the Enhanced HIPC Initiative of 1999 (both of which mainstream NGOs supported as helpful steps in the right direction), a trust fund financed by donor governments reimbursed multilateral development banks (but not the IMF) for debt write-offs. This allowed the multilaterals to maintain pre-cancellation lending outflows even as debt service inflows went down. The Jubilee campaign in particular argued that the new money ought to be dedicated to social spending (health and education) which were seen as most promising for reducing poverty. But

history counsels humility to outsiders hoping to influence sovereign states. Donor conditionality, especially when weakened by public pressure to get debt relief done fast, regardless of whether conditions are satisfied, generally cannot overcome entrenched interests and corruption. Meanwhile, for the multilaterals, the new money arguably created moral hazard: a reward for past mistakes, more precisely, for *modus operandi* that caused unsustainable lending. Finally, since multilateral lenders would keep disbursing aid at the pre-cancellation pace, they would also be creating debt at the pre-cancellation pace.

"Moral Time Inconsistency": Is Development Lending Doomed in the Poorest Countries?

Beneath all these confused expectations, however, the debt relief movement did accomplish its fundamental and laudable goal: it got debts relieved. The Enhanced HIPC Initiative of 1999, which responded to and became the focus of Jubilee 2000, offered to roughly halve the debts of HIPCs—far short of what Jubilee 2000 and realism demanded, but a big step forward. Further campaigning by successor organizations helped bring out announcement of the Multilateral Debt Relief Initiative at the G–7 summit at Gleneagles, Scotland, in 2005. The MDRI offered to cancel *all* the multilateral debt of many HIPCs and aims to limit lending (as opposed to grants) going forward. The debt cancellation movement, including the Jubilee 2000 campaign, is therefore an interesting example of pressure groups generating inflated expectations in order to win necessary reforms. Unrealism forced realism. One can only wonder how much longer creditors would have taken to write off the bad loans without this continuing pressure over 20 years.

The success of NGOs in getting official debts largely written off continues a longer trend in the history of foreign aid starting in the 1940s: increasing flows to poorer countries, on increasingly cheap terms. Forces behind this trend include geopolitical interests in poor nations; the moral case for aid, perhaps made more compelling by the integration of global society, which made the third world seem closer to the first world; and the search, especially by multilaterals, for institutional for permanence. What was initially designed during World War II as a Bank for Reconstruction (of Europe), got "Development" added to its name in part to give it a long-term mission; it officially began life in 1944 as the International Bank for Reconstruction and Development, and was unofficially known World Bank. It lent at market interest rates. Concessional (low-interest) lending to the poorest countries emerged in the late 1950s, first at the Inter-American Development Bank, then the World Bank. In the 1970s, the IMF lost its original mission to shepherd the international gold standard, but found a new one in lending to developing countries buffeted by oil shocks. In the 1980s, it launched a large-scale concessional lending program, the Enhanced Structural Adjustment Facility. After the commercial debt crisis hit in 1982, bilateral donors spent the 1980s shifting even more from loans to grants for the poorest countries. In the 2000's, aid grants to Sub-Saharan Africa tripled, the World Bank started making grants to the poorest countries, and debt relief retroactively made many loans more concessional and turned others into grants. In 2010, the IMF, historically the most conservative lender, made a major loan to Haiti after its earthquake, then turned it into a grant with new rules that automatically cancel debts owed by countries sustaining severe disasters.

In light of the trend toward easier financial terms, particularly the routinizing of debt cancellation, it is interesting that back when people first began thinking about lending for development, in the 1940s and 1950s, they did not foresee how the story would turn out. They did not foresee how hard it could be, morally and politically, to collect on loans to countries that had failed to escape poverty, *even when those countries were receiving more in new grants and loans than they were spending servicing old ones*. Development lending to the poorest countries is therefore arguably beset by a *moral or political time inconsistency*: however compelling the argument at disbursement that a loan will make a country better off—better off, even, than a grant of equivalent cost—in a post-Jubilee world the debt contract may be effectively unenforceable at collection.

The evident bite of this inconsistency raises a question: will the long arc toward increasingly concessional finance for the poorest end only when development lending has ceased? Is development lending an endangered species? At the least, the international donor community appears to have settled into a regime in which debt cancellation is routine, if ad hoc. In effect loans have become equity, with lenders sharing the risk of economic failure. If so, then it would better to formalize this arrangement than to stumble from debt crisis to earthquake to flood.

The Effects of Causes

The Jubilee 2000 campaign is also significant within another broad trend: the resurgence of NGOs. Non-governmental groups have shown that they can exercise power by educating members of the public and engaging them in the policymaking process. The success of Jubilee 2000 led directly to creation of new, high-profile NGOs in the 2000's such as DATA and the ONE Campaign (now merged). It advanced an advocacy style that exploits the power of stars such as Bono; uses media old and new with savvy; strikes a strongly centrist stance (in the U.S. context, bipartisan); and subtly melds secular and religious appeals. In particular, Jubilee progeny unlocked more than $50 billion in U.S. government funding for global health in the 2000s, mainly for HIV/AIDS treatment in Africa. This aid flow dwarfs the new funds generated for debt relief.

But strengths are also weaknesses. NGOs campaigns appear to be strongest when opposition is diffuse, as it is with aid spending funded by the general taxpayer. That contrasts with trade policy, where opposition is entrenched and NGOs such as Oxfam have had less impact. NGO campaigns also are strongest when the case for change can be distilled into a simple idea that is compelling to many religious and political demographics: “for every £1 we all gave for famine relief in Africa in 1985 the West took back £2 in debt payments”; people will die from AIDS without drugs now. Unfortunately, what “sells” and what is needed are not the same in general. Funding for AIDS treatment may come at the expense of prevention programs that can save more lives with the same money, or at the expense of combating other diseases at least as deserving of attention. Thus the Jubilee 2000 episode shows the power of NGO campaigns to do good even as it points to the challenge of assuring they do the most good they can.