Topic A: Debt Repayment Reluctance

"Proponents of third-world debt relief were lobbying for complete forgiveness of loans to poor countries by the year 2009. Some go on to argue that the citizens of these nations do not even owe the debt because it was borrowed by past corrupt governments for political and military purposes. All point out the moral issues behind debt relief, for such nations are unable to spend enough on education, health care, welfare reform, and infrastructure because they are saddled with the oppressive burden of large external debt. There is no disagreement among economists that such a burden inhibits growth and impoverishes nations, but it would be naive to think that one only need classify the countries that need or deserve debt relief and then simply erase it without consequence. Someone will have to absorb the immense burden.

The size of this burden depends on how one defines a poor and financially troubled country. If we use the low-income ranking of countries as defined by the World Bank, long-term external debt stands at $3,469,415 million as of 2011. The main aim of the topic is to discuss ways of taking care of the moral and economic issues involved in this problem facing the world."

The developing countries require not only that aid be given in a way that helps their development but also that there be more aid. Relatively small amounts of money could make large differences in promoting health and literacy. In real terms, adjusted for inflation, the amounts of development assistance have actually been declining, and even more so either as a percentage of developed country income or on a per capita basis for those in the developing countries. There needs to be a basis for funding this assistance (and other global public goods) on a more sustained level, free from the vagaries of domestic politics in the United States or elsewhere. Several proposals have been put forward.

When the IMF was established, it was given the right to create Special Drawing Rights (SDR'S), a kind of international money. With countries today wisely putting aside billions of dollars into reserves every year to protect themselves against the vicissitudes of international markets, some income is not being translated into aggregate demand. The global economic slowdown of 2007-08 brought these concerns to the fore. Issuing SDRs to finance global public goods -- including financing development assistance -- could help maintain the strength of the global economy at the same time that it helped some of the poorest countries in the world. A second proposal entails using the revenues from global economic resources -- the minerals in the seabed and fishing rights in the oceans -- to help finance development assistance.

Recently, attention has focused on debt forgiveness, and for good reason. Without the forgiveness of debt, many of the developing countries simply cannot grow. Huge proportions of their current exports go to repaying loans to the developed countries. The Jubilee 2000 movement mobilized enormous international support for debt forgiveness. The movement gained the backing of churches throughout the developed world. To them, it seemed a moral imperative, a reflection of basic principles of economic justice.

The issue of the moral responsibility of the creditors was particularly apparent in the case of cold war loans. When the IMF and World Bank lent money to the Democratic Republic of Congo's notorious ruler Mobutu, they knew that most of the money would not go to help that country's poor people, but rather would be used to enrich Mobutu. It was money paid to ensure that this corrupt leader would keep his country aligned with the West. To many, it doesn't seem fair for ordinary taxpayers in countries with corrupt governments to have to repay loans that were made to leaders who did not represent them.

The Jubilee movement was successful in getting much larger commitments to debt forgiveness. But debt relief needs to go further: as it stands now, the agreements touch only the poorest of the countries. Countries like Indonesia, devastated by the East Asian crisis and the failures of the IMF policies there, are still too well off to be brought in under the umbrella."

Supporters of debt relief programs have often argued that new democratic governments in poor nations should not be forced to honor the debts that were incurred and mismanaged long ago by their corrupt and dictatorial predecessors. Certainly, some justice would be served if a legitimate and reformist new government refused to repay creditors foolish enough to have lent to a rotten old autocracy. But, in reality, there are few clear-cut political breaks with a corrupt past. The political factors that make governments corrupt tend to persist over time. How "clean" must the new government be to represent a complete departure from the misdeeds of an earlier regime?

Consider President Yoweri Museveni of Uganda, about the strongest possible example of a change from the past—in his case, the notorious past of Ugandan strongman Idi Amin. Yet even Museveni's government continues to spend money on questionable military adventures in the Democratic Republic of the Congo. Would Museveni qualify for debt relief under the "good new government" principle? And suppose a long-time corrupt politician remains in power, such as Kenyan President Daniel Arap Moi. True justice would instead call for such leaders to pay back some of their loot to development agencies, who could then lend the money to a government with cleaner hands—a highly unlikely scenario.

Making debt forgiveness contingent on the supposed "illegitimacy" of the original borrower simply creates perverse incentives by directing scarce aid resources to countries that have best proved their capacity to mismanage such funds. For example, Ivory Coast built not just one but two new national capitals in the hometowns of the country's previous rulers as it was piling up debt. Then it had a military coup and a tainted election. Is that the environment in which aid will be well used? Meanwhile, poor nations that did not mismanage their aid loans so badly—such as India and Bangladesh—now do not qualify for debt relief, even though their governments would likely put fresh aid resources to much better use.

Finally, the legitimacy rationale raises serious reputation concerns in the world's financial markets. Few private lenders will wish to provide fresh financing to a country if they know that a successor government has the right to repudiate the earlier debt as illegitimate. For the legitimacy argument to be at all convincing, the countries in question must show a huge and permanent change from the corruption of past regimes. Indeed, strict application of such a standard introduces the dread specter of "conditionality," i.e., the imposition of burdensome policy requirements on developing nations in exchange for assistance from international financial institutions. Only rather than focusing solely on economic policy conditions, the international lending agencies granting debt relief would now be compelled to make increasingly subjective judgments regarding a country's politics, governance structures, and adherence to the rule of law.

However, some argue that the foreign debt of poor countries has always been partly fictional. Whenever debt service became too onerous, the poor nations simply received new loans to repay old ones. Recent studies have found that new World Bank adjustment loans to poor countries in the 1980s and 1990s increased in lock step with mounting debt service. Likewise, another study found that official lenders tend to match increases in the payment obligations of highly indebted African countries with an increase in new loans. Indeed, over the past two decades, new lending to African countries more than covered debt service payments on old loans.

Second, debt relief advocates should remember that poor people don't owe foreign debt—their governments do. Poor nations suffer poverty not because of high debt burdens but because spendthrift governments constantly seek to redistribute the existing economic pie to privileged political élites rather than try to make the pie grow larger through sound economic policies. The debt-burdened government of Kenya managed to find enough money to reward President Moi's home region with the Eldoret International Airport in 1996, a facility that almost nobody uses.

Left to themselves, bad governments are likely to engage in new borrowing to replace the forgiven loans, so the debt burden wouldn't fall in the end anyway. And even if irresponsible governments do not run up new debts, they could always finance their redistributive ways by running down government assets (like oil and minerals), leaving future generations condemned to the same overall debt burden. Ultimately, debt relief will only help reduce debt burdens if government policies make a true shift away from redistributive politics and toward a focus on economic development.

Pro-debt relief advocacy groups face a paradox: On one hand, they want debt relief to reach the poor; on the other, they don't want rich nations telling poor countries what to do. "For debt relief to work, let the conditions be set by civil society in our countries, not by big world institutions using it as a political tool," argued Kennedy Tumutegyereize of the Uganda Debt Network. Unfortunately, debt relief advocates can't have it both ways. Civil society remains weak in most highly indebted poor countries, so it would be hard to ensure that debt relief will truly benefit the poor unless there are conditions on the debt relief package.

Attempting to square this circle, the World Bank and IMF have made a lot of noise about consulting civil society while at the same time dictating incredibly detailed conditions on debt relief. The result is unlikely to please anyone. Debt relief under the World Bank and IMF's current HIPC initiative, for example, requires that countries prepare Poverty Reduction Strategy Papers. The World Bank's online handbook advising countries on how to prepare such documents runs well over 1,000 pages and covers such varied topics as macroeconomics, gender, the environment, water management, mining, and information technology. It would be hard for even the most skilled policymakers in the advanced economies to follow such complex advice, much less a government in a poor country suffering from scarcity of qualified managers. In reality, this morass of requirements emerged as the multilateral financial institutions sought to hit on all the politically correct themes while at the same time trying hard to make the money reach the poor. If the conditions don't work the World Bank and IMF can simply fault the countries for not following their advice.

During the last two decades, the multilateral financial institutions granted "structural adjustment" loans to developing nations, with the understanding that governments in poor countries would cut their fiscal deficits and enact reforms—including privatization of state-owned enterprises and trade liberalization—that would promote economic growth. The World Bank and IMF made 1,055 separate adjustment loans to 119 poor countries from 1980 to 1999. Had such lending succeeded, poor countries would have experienced more rapid growth, which in turn would have permitted them to service their foreign debts more easily. Thirty-six poor countries received 10 or more adjustment loans in the 1980s and 1990s, and their average percentage growth of per capita income during those two decades was a grand total of zero.

Moreover, such loans failed to produce meaningful reforms, and developing countries now cite this failure as justification for debt relief. Yet why should anyone expect that conditions on debt forgiveness would be any more effective in changing government policies and behavior than conditions on the original loans?

Partial and conditional debt forgiveness is a *fait accompli*. Expanding it to full and unconditional debt forgiveness—as some groups now advocate—would simply transfer more resources from poor countries that have used aid effectively to those that have wasted it in the past. The challenge for civil society, the World Bank, IMF, and other agencies is to ensure that conditional debt forgiveness really does lead to government reforms that enhance the prospects of poor countries.

How can we promote economic reform in the poorest nations without repeating past failures? The lesson of structural adjustment programs is that reforms imposed from the outside don't change behavior. Indeed, they only succeed in creating an easy scapegoat: Insincere governments can simply blame their woes on the World Bank and IMF's "harsh" adjustment programs while not doing anything to fundamentally change economic incentives and ignite economic growth.

It would be better for the international financial institutions to simply offer advice to governments that ask for it and wait for individual countries to come forward with homegrown reform programs, financing only the most promising ones and disengaging from the rest. This approach has worked in promoting economic reform in countries such as China, India, and Uganda. Rushing through debt forgiveness and imposing complex reforms from the outside is as doomed to failure as earlier rounds of debt relief and adjustment loans.

The prevention of future large-scale debt crises requires the private sector to become the sole source of loans and direct investment to developing countries, and the g-7 countries, World Bank, and IMF need to serve notice to private investors that, from now on, there will be no more bailouts of governments in financial distress. Since markets are more demanding of economic performance than governments, better quality loans will be made, which, in turn, will create more jobs and improve standards of living in developing countries.

Topic B: The International Monetary Fund and the Crisis in Ukraine

Though the international crisis in Ukraine has received a considerable amount of press coverage, there is still much uncertainty as to how the international community should monitor and respond to new, unfolding events. The continued willingness of Russia to act unexpectedly and aggressively has conjured up memories of the Cold War and stirred fears of its reemergence; however, both individual nations and international organizations are striving to ensure that this is not the case. One such organization, the International Monetary Fund (IMF) could have a particularly interesting effect on this crisis, which has influence over both international economic issues and the economies of its member states.

The IMF

The International Monetary Fund is an organization that many know by name, but its function is not necessarily as well understood. Formally founded in 1947, the IMF provides oversight to the international economy by monitoring exchange rates, giving economic policy advice to member states, conducting research and analytics, and providing loans.[1] It currently consists of 188 countries, including the United States, Russia, and the Ukraine, that contributed over $362 billion in member quotas in 2013.[2]

Crisis in Ukraine

Instability in Ukraine has been brewing since late 2013, when Ukrainian president Viktor Yanukovych decided to forgo closer ties with the European Union and instead adopt a more pro-Russian stance. Pro-European protestors took to the streets of Kiev and after a few weeks of mostly peaceful demonstrations, violence became more prevalent, culminating in the ousting of Yanukovych and the installation of a new, pro-Western, transitional government.[3] Meanwhile in the predominantly Russian speaking Eastern Ukraine, residents grew skeptical of the new government and began rebelling. In March of 2014, Russia escalated tensions with the West by formally annexing Crimea despite objections by the international community.[4] As of late 2014, the crisis in Ukraine is no less serious. A pro-Russian armed insurgency against government forces has escalated into full out revolution that is thought to be directly supported by the Russian military. In response, the United States, the European Union, and their allies have leveled a number of multi-lateral economic sanctions against Russia and Russian individuals. Many details regarding Ukraine's current situation are not fully understood given the rapidly unfolding nature of these events.

[5]Prevalency of militant extremism in Ukraine as of April, 2014

IMF Loans to Ukraine

In April of 2014, the IMF approved a loan program that would provide Ukraine with approximately $17 billion in order to stabilize its economy.[6] Having its economy already weakened due to the global economic downturn of 2008, the recent crisis has only made its situation worse. Though these loans will most definitely have a positive effect on Ukraine's economy, they are potentially a point of controversy. Recall that Russia and the United States, as well as Ukraine, are members of the IMF. Providing a substantial loan to a government embroiled in civil war is a situation that the IMF does not usually choose to involve itself in. Many would argue that the IMF is simply acting in blatant favor of Western interests.[7] In fact, the $17 billion loan agreement came with major concessions by the Ukrainian government that included domestic monetary and tax policies.[8] Furthermore, these loans will likely serve to strengthen ties between Western powers and the new pro-European government that has been in place since the removal of Yanukovych. Propping up the Ukrainian economy may easily be viewed as an anti-Russian move by the international community. As Russia moves to support anti-government insurgents in eastern Ukraine, a recovering economy allows the government to focus its resources on fighting the rebellion. In a broader view, these loans bring into question the entire purpose and function of the IMF. Can the IMF be permitted to take sides in political conflicts as an international organization? In the self-proclaimed states that are fighting for independence in eastern Ukraine, economic hardship is widespread, yet they receive no assistance. Is the IMF simply following Western powers' international agenda, and if it is, should it be allowed to continue doing so?

Stabilizing Ukraine's Economy

As previously stated, the Ukrainian economy was hard hit by the global financial meltdown that occurred in 2008. In 2008 the IMF had also voted to supply Ukraine with just under $17 billion in loans.[9] Recovery since then has been difficult, and the recent crisis has only complicated the issue. Economic growth has stalled and the economy has even contracted in 2014 as a result of continued fighting.

[10] Ukraine's economy was hard hit by the global recession and has struggled since

The Ukrainian economy currently faces a number of serious issues. Due to the fighting, confidence in the banking and financial system is very low. Bank deposits have decreased rapidly, while a dramatic increase in inflation has caused the value of the hryvnia, Ukraine's currency, to drop.[11] Simultaneously, both retail sales and industrial production have declined.[10] Given just how serious Ukraine's economic hardships have been over the last few years, many question whether or not the IMF has done enough to help protect Ukraine's economy. Furthermore, the potential for more downturns in the near future is high if political instability continues to be a severe problem for the nation. While loans and funding is certainly important to ward off imminent economic disaster, Ukraine has a number of deep-seeded problems that require attention.

Country Bloc Positions

These positions are open to debate

- Ukraine/EU/US- in favor or increased IMF support
- Russia- against international support for Ukraine
- Africa/Middle East- perhaps against support for Ukraine, in need of help themselves
- Asia- monitoring crisis for escalation but no substantial direct involvement

How Should the IMF Address These Issues?

In 2008, when the global financial markets collapsed and the world entered a severe recession, countries around the world were badly affected, Ukraine being one of them. As other nations have since recovered, Ukraine has failed to do so. The IMF has provided a series of loans to the troubled nation, but they have not reversed the recent downward trend seen in Ukraine's economy due to the recent political turmoil. After the former president Yanukovych was removed from office in February of 2014, the new government moved to consolidate its power and strengthen ties with the West. This included accepting a $17 billion loan from the IMF. The IMF has arguably chosen a side in this still unfolding conflict. Does it have the right, as an international organization to do this, and should it continue to support the Ukrainian economy? If so, should the IMF extend its aid beyond loans, and how can it ensure long-lasting stability in Ukraine? Will any further measures taken by the IMF even be effective, and how can it help to resolve this ongoing conflict. As the fighting continues, the international community will have to at some point come together in an effort to mediate an end to the conflict. The IMF, with its broad economic influence, will have the opportunity to play a significant role in Ukraine in the near future, and will hopefully be able to help resolve the Ukrainian crisis.

Sources and Further Readings-

[1] http://www.imf.org/external/about.htm

[2] http://www.imf.org/external/np/exr/facts/glance.htm

[3] http://www.theguardian.com/world/2013/dec/01/ukraine-largest-street-protests-orange-revolution

[4] http://www.bbc.com/news/world-europe-26686949

[5] http://www.globalsecurity.org/jhtml/jframe.html#http://www.globalsecurity.org/military/world/ukraine/images/map-ukraine-2014-04-22.jpg

[6] http://www.imf.org/external/pubs/ft/survey/so/2014/NEW043014A.htm

[7] http://www.counterpunch.org/2014/09/09/the-imfs-new-cold-war-loan-to-ukraine/

[8] http://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/OurBiz_Brief_Ukraine.pdf

[9] https://www.imf.org/external/pubs/ft/survey/so/2008/car102608b.htm

[10] http://soberlook.com/2014/09/ukraine-on-brink.html

[11] http://blog-imfdirect.imf.org/2014/04/30/stabilizing-ukraine/