

## Economic justice

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*“When I see bread lines in Berkeley or famine in Africa, I no longer think, as I once might have, ‘This is unfortunate’. Instead, I think, ‘This is unfair.’”<sup>1</sup>*

### A broken world

For many countries the 1990s were a decade of despair. The UN’s latest human development report charts increasing poverty for more than a quarter of the world’s countries, where failed economic policies combined with famine, conflict and HIV/Aids to turn the clock back.

Overall human development, measured by the UN as an amalgam of income, life expectancy and literacy, fell in 21 countries during the 90s. This is unprecedented, the report says: “Though average incomes have risen and fallen over time, human development has historically shown sustained improvement, especially when measured by the human development index.”

“Some 54 countries are poorer now than in 1990. In 21, a larger proportion is going hungry. In 14, more children are dying before age five. In 12, primary school enrolments are shrinking. In 34, life expectancy has fallen. Such reversals in survival were previously rare.”

Global inequality overshadows the inequalities within our societies, and it is growing. In 1988, world income distribution by households had a Gini coefficient of 0.63. This rose to 0.67 in 1993 and 0.69 in 2001.<sup>2</sup>

Today, the richest 1% of the world’s population (around 60 million) receives as much income as the poorest 57%, while the income of the richest 25 million Americans equals that of almost 2 billion of the world’s poorest people.<sup>3</sup>

Is this unfortunate? Or is it unfair?

### Forgive us our debts

Five years ago, 70,000 protesters made a human chain around a meeting of the G7 in Birmingham, England to demand that the chains of international debt be broken.<sup>4</sup> The Jubilee 2000 petition calling for the cancellation of the unpayable debt of the world’s most impoverished countries was signed by 24 million people worldwide.

In May 2003, the Jubilee movement reviewed how far these demands had been met.<sup>5</sup> It looked at what the G8 call the heavily indebted poor countries initiative (HIPC), and it found good news and bad news.

The good news is that, on average, for the 26 countries that have reached what in HIPC is called “decision point”, things have improved. Their debt has

not been cancelled, but they now pay 40% less in servicing it. And this has positive consequences for the lives of their people.

In Uganda, Malawi, Zambia and Tanzania, and in rural areas of Benin, primary school fees have been abolished; Mozambique has introduced a free immunization programme for its children; Mali, Mozambique and Senegal are increasing their spending on HIV/Aids prevention; Uganda and Mozambique come close to the growth rates they need to reduce by half the number of their people living in absolute poverty.

But the good news is outweighed by the bad. Only eight countries have so far received substantial debt write-off under HIPC. The structural adjustment conditions imposed by the International Monetary Fund are still designed to protect the assets and interests of creditors rather than help the countries the IMF is supposed to serve. Even by the Fund's own narrow criteria, the initiative is failing to restore countries to debt "sustainability".

The central problem is that the HIPC initiative has very little to do with justice or poverty reduction. It aims to restore these countries to a position where they can repay their debts.

The people who piled onto the streets of Birmingham in 1998 were not interested in turning the world's poorest countries into "good" debtors. They were driven by the conviction that the burden of debt carried by these countries is not just unfortunate. It is simply unfair.

Speaking in St Chad's Cathedral in Birmingham five years ago, Mulima Kufekisa Akapelwa said this: "I am tired of seeing too many of the poorest, of the weakest of my countrymen and women, having their lives bled dry... I am weary of seeing people being squeezed to pay off the debts imposed on them... I am angry also... Angry because this is the result of policies decided on by the world's most powerful. Angry because powerful leaders seem to feel no urgency in ending this disaster... Calling from Zambia, from Africa, standing by ourselves, we have to beg for debt relief. But calling from Zambia, from Africa, and standing alongside you, my brothers and sisters from Britain, the rest of Europe and North America, standing alongside you: we are in a position to demand justice."<sup>6</sup>

### Robbing the corpse

"When it becomes necessary for a state to declare itself bankrupt, in the same manner as when it becomes necessary for an individual to do so, a fair, open, and avowed bankruptcy is always the measure which is both least dishonourable to the debtor, and least hurtful to the creditor."<sup>7</sup>

At the end of 2001, as Argentina ran through five presidents in a fortnight, the government defaulted on \$95bn in Argentine bonds – the largest sovereign default in history. "We are in collapse," said the new economy minister, Jorge Remes Lenicov. "Argentina is bankrupt."<sup>8</sup>

But countries, unlike companies or even cities, aren't allowed to go bankrupt. Instead they must negotiate their way out of collapse with a complex set of creditors – international, national and private.

On September 22 2003, Néstor Kirchner's government asked bondholders to accept a 75% cut in the face value of their bonds, and declined to pay the interest accrued since the 2001 default. Creditors will receive no interest until a deal is done, said Argentine finance secretary Guillermo Nielsen. The discount Argentina is seeking dwarfs Russia's 35% "haircut" in the late 1990s and Ecuador's 41% cut in 2000.

"The Argentines are seeking to rewrite the rules of bond restructuring," said Paul Luke, chairman of Convivo Capital Management, a hedge fund based in London. "They had the biggest ever default and now they're seeking the biggest ever haircut."

But Argentina has little choice. In addition to the \$95bn it owes bondholders, it has more than \$70bn in performing debt, much of it owed to the IMF, the World Bank and the Interamerican Development Bank. In a deal struck with the IMF days before it made the offer to bondholders, it committed to a 3% primary surplus in 2004, barely enough to service the performing debt, never mind the defaulted loans.

With 152 different bonds in seven currencies and 43% of these bonds in the hands of individual investors all over the world, Nielsen acknowledged that the negotiation will be "one of the most complicated in history", presenting Argentina and its creditors with "problems of extreme complexity which we will have to solve together."

Anne Krueger, the IMF's deputy managing director, believes a deal can be finalized by mid-2005. Others are less sanguine. "The creditors and the government have very different perceptions of the country's future ability to pay," says Standard & Poor's analyst David Beers. Negotiations could drag on and on, complicated by litigation.

Meanwhile, half of Argentina's 38m inhabitants are still living below the poverty line and real unemployment stands at more than 20%. Is this unfortunate? Or is it unfair?

It's time to listen to Adam Smith.<sup>9</sup>

### **Pulling the planet from under our feet**

In 1997, Senegal signed a fisheries agreement with the European Union, granting concessions to foreign boats fishing in its coastal waters. This is an important source of revenue for the government, but threatens the livelihoods of Senegal's 47,000 artisanal fishermen. Vast quantities of fish are caught by Spanish trawlers, many of them belonging to Europe's largest fishing fleet, owned by the Pescanova corporation. The huge drag-nets they use reduce the number of fish that swim into near-shore areas, and breeding stocks are diminishing.

Fisherfolk are forced to go farther out to sea, and the size of their catches is falling. There are fewer fish in local markets, and local communities are deprived of an essential source of nutrition.

Industrialized countries, having mined their own coastal waters to exhaustion, now give their commercial fleets annual subsidies of \$20bn to extract fish from the coastal waters of developing countries, helping them to appropriate a source of protein and income vital for poor communities. More than 40% of fishing stocks worldwide are now being exploited to their biological limits.

Over the last 20 years, commercial logging has contributed to the loss of nearly half of Cambodia's forests. Much of the export trade is illegal, with Vietnamese companies exploiting weak, often corrupt, local political structures to gain access to one of the country's richest resources. The costs to local communities displaced by logging, and whose livelihoods are threatened by the loss of forestry products such as nuts and berries, have been immense.

Wholesale deforestation is directly threatening the Tonle Sap lake, one of the world's most productive inland fisheries, which supplies over 60% of Cambodia's protein needs. The loss of resin trees has been especially damaging. These provide an income of up to \$500 a year for a resin tapper. They also provide the resin used by communities in constructing and maintaining the boats on which their livelihoods depend.

In 1997, the Cambodian government received \$12m from licensing logging activity. An estimated \$185m worth of timber was illegally felled in the same year. Much of the wood was transported to Vietnam, where it was made into furniture for export to Germany and Denmark, often with fake "environment-friendly" labels.

Examples can be multiplied. Economic injustice combines with environmental destruction to injure the poor and imperil the planet on which we live.<sup>10</sup> Is this unfortunate? Or is it just wrong?

Protecting the rich, exposing the poor

"The rhetoric of global trade is filled with promise. We are told that free trade brings opportunity for all, not just a fortunate few. We are told that it can provide deliverance from poverty and despair. And we are led to hope that the current round of trade negotiation will deliver on this promise. Sadly, the reality of the international trading system today does not match the rhetoric... Instead of global trade rules negotiated by all, in the interest of all, and adhered to by all, there is too much closed-door decision-making, too much protection of special interests, and too many broken promises."

Kofi Annan's words at the start of the fifth ministerial conference of the World Trade Organization (WTO) were prophetic of how the meeting in Cancún, Mexico would play out.<sup>11</sup>

Take cotton.

The United States pays \$3bn a year in subsidies to 25,000 US cotton farmers. These subsidies undermine the livelihoods of smallscale cotton farmers in Benin, Burkina Faso, Mali and Chad. In Cancún, the four African countries called for the elimination of subsidies for cotton production and export, describing this as their only specific interest in the Doha round. They heard the WTO director general remind member states of their commitment to the millennium development goals, which include halving poverty by 2015. They heard general council chair Pérez del Castillo promise that the development dimension would be present in all negotiations and clearly reflected in the results. They saw the formation of a special working group to consider their initiative. For a brief moment they dared to hope.

And then they saw their position entirely ignored in the draft ministerial text issued on September 13. “The mountain did not give birth to a mouse,” said one representative of the Burkinabe cotton industry. “It gave birth to an ant.”

The WTO claims to set a legal, multilateral framework for global trade. Its rules are supposed to prevent protectionism by rich countries while permitting some protectionism by poor countries to allow them to develop and grow. In practice, because the rich countries subvert its processes and bully the poor ones, the WTO does precisely the opposite.

In 1994, at the conclusion of the Uruguay round, the rich countries agreed that they would phase out farm subsidies if the poor countries promised to open their markets to western corporations. The poor nations kept their promise, the rich countries broke theirs; and we are still waiting, in what is called a development round, for them to come through.

When the current round was launched in Doha in 2001, rich countries promised to phase out export subsidies that experts blame for the mountains of cheap food dumped each year in poor countries, bankrupting local farmers. The European Union and the United States also promised to open their markets to poor country agricultural exports.

Little or none of this was on offer in Cancún, because neither the United States nor the European Union – nor other rich countries, for that matter – are willing to face the radical surgery these promises require. Instead, they preferred to denounce developing countries for demanding what was promised at Doha, while pressing for new negotiations on the “Singapore issues”.<sup>12</sup>

Is this unfortunate? Or is it unfair?

The collapse of the Cancún talks leaves the world at a crossroads, and it is not yet clear which way we will go. The great achievement in Cancún was that the G21 group of developing countries resisted all efforts to divide them, and refused to be bullied or brow-beaten into an agreement on northern terms. If developing countries stick together after Cancún, they may be able to carry that

negative success forward to positive reform of the world's trade rules. Or they may be picked off one by one, in bilateral trade agreements of the kind that the United States has recently concluded with Chile and Singapore.

### Russian roulette

"The Asian depression seems set to do to free market ideology what the great depression and world war two did to the fiscal and economic orthodoxies of the thirties."<sup>13</sup>

For 10 years the Thai baht traded at around 25 to the US dollar; then in July 1997 it fell overnight by a quarter. Currency speculation spread to Malaysia, South Korea, the Philippines and Indonesia. East Asia was in crisis. By the end of the year, the implosion of the finance systems threatened to bring down many of the region's banks, firms and even whole economies. In 1998, gross domestic product (GDP) fell by 6.7% in Korea, by 10.8% in Thailand, by 13.1% in Indonesia.

Unemployment went up threefold in Thailand, fourfold in Korea, tenfold in Indonesia.

In Indonesia, poverty doubled; in Korea, urban poverty almost tripled, with almost a quarter of the population falling into poverty.

In each country, there were specific factors at work.

But it was the liberalization of short-term capital flows, the billions of dollars sloshing around the world looking for the highest return, that lay at the root of the crisis.

The quickening international flow of finance in the last three decades is arguably the most important reality shaping the way we live now. As the East Asian crisis underlines, we live dangerously.

The collapse of the Bretton Woods system in the early 1970s led to an exponential growth in international financial movements. In 1973, daily foreign exchange trading varied between \$10bn and \$20bn – roughly twice the value of world trade. By the end of the century, foreign exchange trading climbed to a daily average of almost \$1,800bn – 90 times the value of real trade. We live in a paper economy, where only a tiny fraction of foreign exchange transactions is used to finance international trade and foreign investment and the vast majority is speculative.

Capital market liberalization was urged upon East Asian countries by the IMF and the US Treasury. As it emerged from the wreckage of the Korean war, South Korea developed a growth strategy that increased per capita income eightfold in 30 years and reduced poverty dramatically. In the early years, it controlled its financial markets tightly. But under US pressure, it reluctantly allowed its conglomerates to borrow abroad, exposing themselves to "animal spirits" (JM Keynes) and the vagaries of the international market. In 1997, it paid the price.<sup>14</sup>

“Speculators may do no harm as bubbles on a steady stream of enterprise,” John Maynard Keynes wrote in 1936. “But the position is serious when enterprise becomes the bubble on a whirlpool of speculation.”<sup>15</sup>

The East Asian crisis is over, but people in the countries affected will be living with the damage for years.

Is this unfortunate? Or is it irrational and unjust?

### The golden rule or the rule of gold

A Gentile asked the rabbi Shammai to accept him as a proselyte, on condition that Shammai teach him the entire law while standing on one foot. The short-tempered Shammai threw him out. The Gentile then turned to Hillel, a kinder, gentler rabbi, who told him, “What is hateful to you, do not do to others.”

“This is the whole of the law,” Hillel said. “The rest is commentary.”<sup>16</sup>

We should treat others as we would wish to be treated ourselves, and we should not tolerate their being treated in ways that we would regard as unacceptable were we at the receiving end.

“Everything in heaven and on earth is yours,” we remind God (and ourselves) in worship when we present our offerings. “All things come from you, and of your own we give to you.”

We must put the world’s wealth where our mouth is. For if all that we have comes from God, we can lay no exclusive claims to it. North and south, east and west, we live together in God’s world and must learn to share.

We are not our own.<sup>17</sup>

### Further reading

In addition to the references in the endnotes, visit the covenanting for justice section of our WARC website ([www.warc.ch/pc/index.html](http://www.warc.ch/pc/index.html)), which carries an extensive range of texts from the Alliance, its member churches and its partners.

### Questions

1. What is your government’s stance on global debt? On sovereign bankruptcy? On fair trade? On environmental protection? On liberalizing capital markets? Do you agree?
2. Industrialized countries, where agriculture is about 2% of gross domestic product (GDP), restrict market access to products from Africa, where agriculture represents over 30% of GDP and 70% of employment. Is this unfortunate? Or is it unfair?
3. What is your church saying and doing about economic injustice? Should it do more?
4. What does our faith in the sovereignty of God call us to profess and do in the face of economic injustice?

## Notes

1. Karen Lebacqz, *Justice in an Unjust World* (Minneapolis: Augsburg, 1987), p.7.
2. Source: Brnko Milanovic, *Economic Journal* 112 (January 2002). A Gini coefficient of 0 is perfect equality, where everyone has the same income; a Gini coefficient of 1 is absolute inequality (where one person has all the income). The higher the coefficient, the greater the inequality: low inequality is defined as less than 0.34, high inequality as more than 0.55.
3. *Human Development Report 2003* (Oxford/New York: OUP, 2003), [www.undp.org/hdr2003/](http://www.undp.org/hdr2003/); *Rigged Rules and Double Standards: Trade, globalization, and the fight against poverty* (London: Oxfam, 2002), [www.maketradefair.com/assets/english/Report\\_English.pdf](http://www.maketradefair.com/assets/english/Report_English.pdf)
4. G7: the governments of seven advanced industrial countries – Canada, France, Germany, Italy, Japan, the UK and the United States. G8: the G7 plus Russia.
5. Jubilee Research, Jubilee Debt Campaign and Cafod, *Did the G8 Drop the Debt?* (London: May 2003), [www.jubilee2000uk.org/analysis/reports/G8final.pdf](http://www.jubilee2000uk.org/analysis/reports/G8final.pdf); see also Jubilee Research, *The Real Progress Report on HIPC* (London: September 2003), [www.jubilee2000uk.org/analysis/reports/realprogressHIPC.pdf](http://www.jubilee2000uk.org/analysis/reports/realprogressHIPC.pdf)
6. Quoted in *Did the G8 Drop the Debt?*, p.9.
7. Adam Smith, *The Wealth of Nations* (1776), V.3.
8. See Páraic Réamonn, “Children starve in Argentina while the IMF tightens the screw”, *Update* 13/1 (February 2003).
9. Kunibert Raffer, “An international insolvency procedure of sovereign states”, in *Debt beyond Contract/La dette au delà du contrat*, ed Édouard Dommen (Geneva: Observatoire de la Finance, 2001), pp.69-78; Anne Pettifor, *Chapter 9/11? Resolving International Debt Crises – the Jubilee framework for international insolvency* (London: Jubilee Research, 2002), [www.jubilee2000uk.org/analysis/reports/jubilee\\_framework.pdf](http://www.jubilee2000uk.org/analysis/reports/jubilee_framework.pdf); Joseph E Stiglitz, “The painful reality the IMF ignores”, *The Guardian*, October 2 2003.
10. These examples and others may be found in *Rigged Rules and Double Standards: Trade, globalization, and the fight against poverty* (Oxfam, 2002), pp.91-94. See further, David Lawrence, “Good shepherds of creation”, in this issue.
11. See Caritas International/Cidse, “Missed opportunity in Cancún”, [www.cidse.org/en/tg1/CIDSEIEvaluationCANCUN.pdf](http://www.cidse.org/en/tg1/CIDSEIEvaluationCANCUN.pdf); Kofi Annan’s presentation was delivered by Rubens Ricupero, secretary general of Unctad.
12. Stalemate on the Singapore issues (investment competition, transparency in public procurement and trade facilitation) precipitated the collapse of the conference, but not before developing countries had time to be outraged at the way in which they were scorned and humiliated by the countries of the north.
13. John Gray, *False Dawn: The delusions of global capitalism* (London: Granta Books, 1999<sup>2</sup>), p.219.
14. The IMF, having helped to cause the crisis, then compounded it by giving advice geared less to the interests of the countries concerned than to their creditors, with the result that East Asians still speak of “the IMF” in the same way as one might speak of “the Black Death”. Joseph E Stiglitz, *Globalization and its Discontents* (London/New York: Allen Lane, The Penguin Press, 2002), esp. chapter 4; Joseph E Stiglitz, “Foreword”, in Karl Polanyi, *The Great Transformation* (Boston: Beacon

Press, 2001), pp.vii-xvii; Gordon K Douglass, "Casino Capitalism: Controlling Speculation in World Financial Markets" (Progressive Christians Uniting), [www.warc.ch/pc/02.html](http://www.warc.ch/pc/02.html)

15. John Maynard Keynes, *The General Theory of Employment, Interest and Money* IV.12.6 (New York: Prometheus Books, 1997), p.159.
16. From the Talmud. See, for example, Geza Vermes, *The Religion of Jesus the Jew* (London: SCM Press, 1993), p.40; and compare Mt 7.12/Lk 6.31.
17. John Calvin, *Institutes of the Christian Religion* III, 7, 1, repeatedly; "The Declaration of Debrecen" in *Debrecen 1997: Proceedings of the 23rd general council* (Geneva: WARC, 1998), p.244, [www.warc.ch/where/23gc/report/index.html](http://www.warc.ch/where/23gc/report/index.html); see further, Douglas L Chial, "Covenanting for justice in the economy and the earth", pp.125-132 in this issue.

### Reformed youth forum (RYF)

Delegates to the general council who are between 18 and 30 years old, together with young Presbyterians from Ghana, are invited to gather just prior to the meeting to share, exchange and develop their vision for mission in today's world. The forum will take place at the University of Ghana from July 27 to 30 2004.

RYF participants will reflect on the theme "That All may have Life in Fullness" from different aspects, especially in the context of globalization, poverty, ecological devastation and inequality between peoples, nations and regions. They will consider the importance of the mission of the church today and the ways that young people can participate. RYF is also a chance for youth delegates to learn about the World Alliance and prepare for effective participation in the general council. RYF will produce a message to be delivered to the general council.

For further information, write to our youth secretary, Yueh-Wen Lu, or email her at [youth@warc.ch](mailto:youth@warc.ch)