

National/International Report

Vatican seeks bold measures to resolve foreign-debt crisis

By Agostino Bono

Vatican City (NC) — Attempts to alleviate the Third World's foreign-debt crisis have been "insufficient and limited," requiring bold new measures such as erasing some of the debt of poorer countries, a major Vatican document proclaims.

The 5,000-word document, titled "At the Service of the Human Community: An Ethical Approach to the International Debt Question," was issued January 27 by the Pontifical Justice and Peace Commission.

"Respect the insolvent debtor and do not burden him with immediate and intolerable demands which he cannot meet," the document continues, in reference to the inability of many countries to meet their loan repayments.

Current repayment conditions are placing many debtor countries on "the very brink of bankruptcy," causing unacceptable economic hardships on their populations. "The development of the debtor countries and, at times, their very independence are endangered," the document asserts.

The document lists suggestions generally sympathetic to Third World concerns and asks that an ease in debt burden be accompanied by programs to stimulate economic growth in underdeveloped countries.

It encourages industrialized countries and lending institutions to redraft repayment programs to allow debtor countries to meet payments, without sacrificing basic domestic needs.

Debtor nations, the World Bank and other international agencies note that interest payments alone are huge burdens. Annual interest paid by 107 developing countries is around \$50 billion, according to the World Bank.

The Vatican document also suggests lowering of interest rates, extending loan repayments over longer periods and an end to protectionist trade measures in industrialized countries.

Commercial banks lending money to Third World countries should remember that the needs of their Third World debtors "are often more urgent" than those of their depositors, the document says.

The document also told developing countries to clamp down on corruption and re-examine national priorities so that less money is spent on weapons and other projects that do not stimulate economic growth.

Moreover, the document states that debtor countries must not take unilateral action to avoid repayments but should reach negotiated solutions with their creditors "to avoid payment defaults which could destabilize the international financial system."

The inability of many Third World countries to repay their foreign debt is a threat to world political and economic stability, the document asserts.

During the past few years, Pope John Paul II often has called the Third World foreign debt crisis a hindrance to world peace, but this is the first time the Vatican has issued a detailed statement suggesting concrete ways

of overcoming the problem.

Vatican officials said impetus for the document came from a number of Third World bishops, especially those of Brazil, who asked that the Church issue a major statement on the debt, because of its harmful impact on vast Third World populations.

Brazil has a foreign debt of \$107 billion, the highest in the Third World.

At a press conference Jan. 27, French Cardinal Roger Etchegaray, president of the Pontifical Justice and Peace Commission, estimated the foreign debt of Third World countries at \$1 trillion, with the major debtors being Latin American nations.

Many of the causes of the crisis are external factors, which are beyond the control of Third World countries. Among these are fluctuating monetary exchange rates, falling world prices for raw materials and high interest rates.

"Creditor states will need to pay special attention to the poorest countries," the document says. In certain cases they should convert the loans to grants," which do not have to be repaid.

"This debt remission, however, must not undermine the financial, economic and political credibility of the 'less advanced' countries or put a stop to new flows of capital from banks," the document says.

Besides restructuring loans, developed countries were asked to adopt policies that will stimulate Third World exports and economic growth.

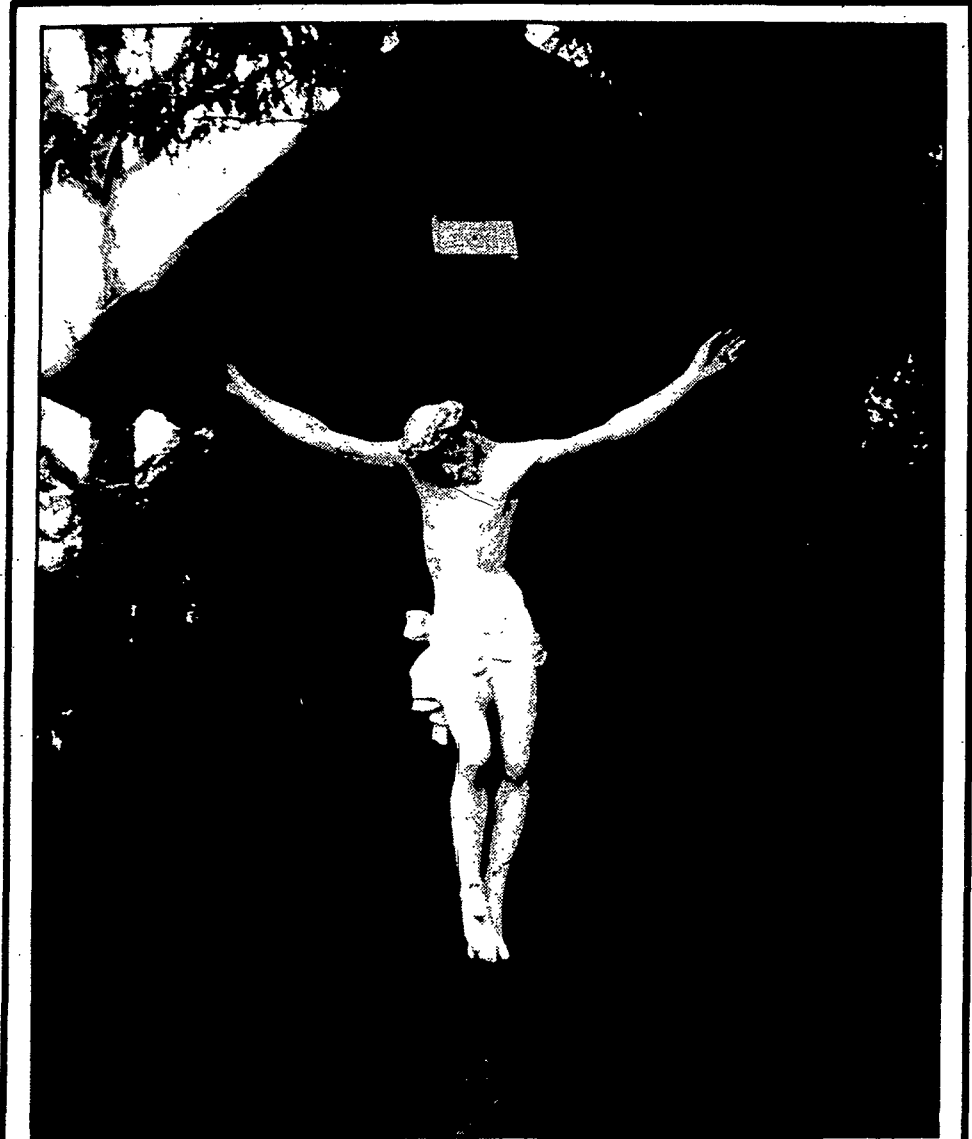
"The industrialized countries have to do away with the protectionist measures which hinder exports from the developing countries," the document asserts, even if this means initial problems in the economies of those industrialized nations. "The industrialized countries will need to plan a re-conversion of their economies with timely buffering of the social effects on their own populations."

The document also criticizes trade and economic competition among industrialized countries at the expense of poor countries. "The current technical and economic competition under way between countries and, above all, between the industrialized ones themselves, is without restraint and is assuming the shape of a ruthless war in no way concerned about the harsh effects on the weaker countries."

Commercial banks lending money to the Third World are asked to develop a policy that "transcends the ordinary criteria of profitability and security for capital invested."

Banks should reschedule debt repayments, revise interest rates and finance "projects on the basis of their impact on growth in preference to 'safer' projects with more immediate investment returns," the document says.

Banks have a duty to protect the money of their depositors, it asserts. "These duties, however, are not the only ones and must be compatible with respect for their debtors whose needs are often more urgent," it said. Other document suggestions include:



Sister Rita Murray/NC News
NEW HOME—When Gil Sakakeeny bought a house formerly owned by the Columbian Fathers in Cambridge, Mass., he discovered a 15-foot crucifix in a pine-shaded corner of the back yard. In his search for a new home for the cross, Sakakeeny asked The Pilot, Boston's archdiocesan newspaper, for help. More than 75 readers from all over the country responded, but the cross ended up at a church in nearby Dorchester.

- A reform of financial and monetary institutions;

- The setting up of coordinating structures "to foresee, prevent and attenuate" similar crises in the future;

- Greater co-responsibility between creditors and debtors in solving debt crises; and

- Involvement of multinational companies in repayment plans because their policies influence the flow of capital into and out of developing countries.

"Multinational companies are involved in international flows of capital under the form of production-oriented investments and the repatriation of capital," the document says. "Their economic and financial policies therefore have a negative or positive influence on the balance of payments."

It calls on Third World countries to cure the domestic causes of their economic ills. These include "tax fraud, corruption, currency speculation, national capital reserve drain, kickbacks in international contracts,"

heavy public spending on armaments and other non-productive projects, and unemployment.

"It is often tempting to shift full responsibility to other countries, in order to avoid having to explain their own actions, errors and even abuses," the document says. "Improved growth rates will make it possible to meet foreign debt commitments (capital and interest) gradually and in a better way."

In a preface to the document, Cardinal Etchegaray traced causes of the current debt crisis back to circumstances that occurred in the early 1970s. At that time, Third World countries saw foreign investment as a major ingredient for economic growth.

This "led developing countries to look for capital and commercial banks to offer credits for financial investments, sometimes at high risk," he wrote.

At the time "the prices for raw materials were favorable and the majority of the debtor nations remained solvent," he said. This changed with a series of new world economic factors, especially the oil crises of the mid and late 1970s when oil prices skyrocketed, the cardinal said.

"The first and second oil crises of 1974 and 1979, the fall in the price of raw materials and the abundance of petrodollars in search of profitable investments, as well as the effects of overly ambitious development programs, contributed to the massive indebtedness of many developing countries," he added.

"Industrialized countries were taking protectionist measures, while worldwide, interest rates were going up. Debtor countries became increasing incapable of meeting even the interest on their debt. Many countries are no longer in a position to honor their agreements, and find themselves forced to seek further loans" resulting in the development of "a vicious circle," the cardinal said.

The situation becomes worse when creditors "often impose on the debtor countries terms, in exchange for accrued credit, that can contribute, at least in the short term, to unemployment, recession and a drastic reduction in the standard of living," he added. The result is "a situation that is intolerable" for the debtor and "disastrous for the creditors themselves."

"Debt servicing cannot be met at the price of the asphyxiation of a country's economy, and no government can morally demand of its people privations incompatible with human dignity," said the cardinal.

Document calls for overhaul of global economy

By Agostino Bono

Vatican City (NC) — The Vatican's Third World foreign-debt statement goes beyond asking borrowers and lenders to drastically reorganize their financial relationships. It also advocates a major overhaul of world economic structures so that they are more favorable to the needs of underdeveloped countries.

The document's thesis is that sustained economic growth in underdeveloped countries is the best long-term way for debtors to meet their obligations and to prevent future crises.

Primary responsibility for this overhaul is placed on the developed countries because their actions and decisions have greater clout in the world economy.

Released January 27 by the Pontifical Justice and Peace Commission, the document asks, "Is it not imperative to start working on a new system of aid from the industrialized countries to the less prosperous ones?"

It calls for a reform of financial and monetary practices, an end to industrialized nations' protectionist tariff policies against Third World exports and greater policy input by debtor countries in the International Monetary Fund.

The IMF is a major lending institution to Third World countries having debt repayment problems.

"The interest rates charged by industrialized countries are high and make reimbursement very difficult for the debtor countries," the document says.

"A coordination of the industrialized countries' financial and monetary policies will make it possible to bring these rates down to a more reasonable level," the document adds.

According to Cardinal Paulo Evaristo Arns of Sao Paulo, Brazil, most developing countries could pay their foreign debts if interest were forgiven. The cardinal said the principal on Brazil's estimated \$107 billion debt is only \$20 billion.

The Vatican document asks industrialized countries "to do away with the protectionist measures which hinder exports from the developing countries. This will increase the economic possibilities of those countries."

Critics of protectionist policies say they keep Third World goods from lucrative markets by making them economically uncompetitive, preventing debtor countries from earning hard currency needed to repay their foreign debt and to

finance domestic development programs.

The Vatican document notes that the IMF has a negative image in much of the Third World, adding that the IMF should consult more with debtor countries in developing lending policies, so as not to cause domestic hardships.

The IMF provides loans for countries in financial difficulties because they cannot meet debt repayments or other foreign obligations. But in order to qualify, borrower countries must accept a series of terms affecting their domestic economy. These often include a currency devaluation, cuts in public spending, limiting government services to wages and subsidies to basic commodities, and wage controls.

Many IMF conditions "have been ill-received by the masses and the general public of countries in difficulty," the Vatican document says.

The document also asks Third World countries to change some of their practices if they are to seriously improve their economies. It criticizes high public spending on arms and other non-productive endeavors, corruption, unequitable tax systems, uncontrolled inflation and unemployment.