

I.O.U.

**THE DEBT
THREAT
AND WHY
WE MUST
DEFUSE IT**

**NOREENA
HERTZ**

**'EVERYONE
SHOULD READ
THIS BOOK'
BOB GELDOLF**

I.O.U.

Noreena Hertz

The Debt Threat and Why We Must Defuse It


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To Jonathan, Arabel and David
Thank you so much.

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CHAPTER ONE

Rock The Vote

‘And ye shall hallow the fiftieth year, and proclaim liberty throughout all the land unto all the inhabitants thereof: it shall be a jubilee unto you; and ye shall return every man unto his possession, and ye shall return every man unto his family.’

Leviticus 25:10 – as partially inscribed on the Liberty Bell

‘Who’s the Elvis here?’ asked the rock star impatiently. The question reverberated through Leslie Gelb’s book-filled office in the beaux-arts brownstone that houses the Council on Foreign Relations. The exasperated tone came from a man accustomed to addressing stadiums filled with fans hanging on to his every word and syllable but it was far from an arrogant question.

Gelb had just finished his tutorial on the American power structure by laying out the great chain of influence – from David Rockefeller to UN Ambassador Richard Holbrooke to US Treasury Secretary Robert Rubin to former Chairman of the Fed, Paul Volcker to a number of key Republicans – that led from Wall Street to Washington and back again. Which only served to remind Bono that he was aiming to play in a very different league. Paul McGuinness, U2’s manager, had only just admonished him that it was one thing to lobby for the debt cancellation cause at music industry events but quite another to pilot the issue through the American political process. With these words still clearly ringing in his ears the star tried to find a shortcut towards his goal.

‘You know I’ve got a day job?’ asked Bono half jesting. It was entirely possible that the decidedly un-hip Gelb, then President of the United States’ premier foreign policy think-tank – a place that played host to many self-important investment bankers, foreign service officers, journalists and academic wonks but no conventional celebrities – had no idea why the young man was important.

But Bono’s attempt at humour cut him no slack, Gelb leaned across to him and repeated in rasping tones (he had lost his voice that day) that any one of the names he’d just listed ‘could basically stop this idea from getting off the ground.’ And if Bono truly wanted to get the United States to cancel all the debts owed to it by the world’s poorest countries, not to mention get the US to provide funds to cover monies owed to the World Bank, the IMF and regional development banks, he would need the support of every one of these American dignitaries – and that was just the beginning. Gelb broke the news that there was no single figure with enough clout to pull off such a complicated and politically inert – manoeuvre. Developing world debt was a diverse issue with many constituencies. For the US government to orchestrate debt cancellation would require the kind of unanimity rarely seen in such a partisan climate. ‘There is no Elvis,’ Gelb finally answered, and ushered the rock star firmly out of the door.

Gelb had been right: there was no Elvis and there were no short-cuts. Eventually Paul Hewson, the Irish singer revered by millions as Bono, would travel back-and-forth across the Atlantic Ocean 3 times, painfully assembling a coalition from some of the world’s least sentimental politicians. After a year and a half beseeching and cajoling, he arranged for a dozen prominent Democrats and Republicans in Congress and the Clinton administration to support a package that pledged to cancel all the debts owed the US by the world’s 33 poorest nations, as well as cover part of what they owed the

World Bank and IMF. It was the culmination of the first – and last – serious attempt by the ordinary people of the West to force politicians to address the painful legacy of Third World debt.

But what was it about the debt of developing countries that motivated Bono to go to so much effort? Aren't *all* countries in debt? The United States certainly is. It owes \$3 trillion, around 10 times what Africa owes, but Bono wasn't campaigning to cancel that.

The difference is this. The US may be the world's most highly indebted nation, but it can afford to service its loans, for now at least. The world's poorest countries in Africa, Asia, and Latin America cannot. Because to do so they have to pay an unacceptably high price, mainly at the expense of their poor or sick. Botswana, in which 40 per cent of adults are now HIV positive, pays more today on debt servicing than it can afford to pay on health care or provision. Niger, the country with the highest child mortality in the world, continues to spend more on debt servicing than on public health. Countries that can't afford to provide basic health care, education or shelter to their people have to use their pitiful resources, including, in many cases, *all* their aid flows, to repay debts typically racked up by authoritarian, unelected regimes long since gone. Children in Africa die every single day because their governments are spending more on debt servicing than they do on health or education. The injustice of this situation made Bono mad.

It made him mad too that most developing countries had become so indebted only because the world's superpowers had callously used them as pawns in the days of the Cold War. And that the rich world continues to lend to dictatorships and corrupt regimes in the poor, despite the fact that it is the ordinary people who live under them who bear the cost. It made him even angrier that the West continues to lend monies to the developing world under the condition that they use them to buy arms or military hardware. And that to the traders on Wall Street and the vultures who hover over highly indebted countries, debt is just another product to be bought and sold, regardless of the damage their actions so often cause.

But this still doesn't explain why a rock star turned political lobbyist? Bono could've kept his politicking confined to music biz events, and still played a part.

To understand that, we must understand the state of the debt cancellation movement in 1999, the year Bono and Gelb met. In Europe, it enjoyed a very high profile. From inauspicious beginnings at Keele University in central England, in just a few years it had evolved into a broad based alliance – the Jubilee Coalition – which counted churches, the Mothers Union, the British Medical Association, trade unions and aid agencies amongst its members. In Britain, 500,000 'Cancel the Debt' postcards had been sent to Gordon Brown, the British Chancellor of the Exchequer, including one from his own mother; in Italy, rival soccer teams wore debt relief t-shirts; on the same day that Frank Sinatra died, 70,000 Jubilee supporters formed a human chain around the G8 Summit of the world's wealthiest democracies, to protest against the shackling of the developing world by its rich world creditors.

In the United States, however, despite the support of various religious groups, the Jubilee coalition had almost no profile, and its campaign – to get the world's richest countries to commemorate the millennium by cancelling the debts owed them by the world's poorest countries – had completely failed to take off. But without the US making a serious commitment to debt relief, the whole Jubilee campaign would falter. The \$6 billion debt owed to the US by the poor countries was an albatross around their already scrawny necks. More critically, there could be little progress towards cancelling the \$70 billion the world's poorest countries owed the World Bank, the IMF, and regional development banks unless America played a major role.

Jamie Drummond, a young British debt campaigner, who had been charged with getting the United States more engaged, decided to think outside the envelope. He saw that there wasn't time to

rally the kind of mass public support that had proven so effective in getting debt on to the European political agenda. It was early 1999 and the millennium clock that marked the deadline for the Jubilee campaign was ticking very loudly. And so he decided to go a completely different route.

In the States, celebrity was, he figured, the quickest way of entering doors and ramping up support. And Bono, the Irish singer, whose band U2 had sold over 100 million records, and who was known for his staunch support of human rights, the environment and development issues was, Jamie believed, his man.

Luckily, Jamie's father had a useful neighbour on the west coast of Ireland. Through Chris Blackwell, the legendary founder of Island Records, Drummond managed to reach Bono.

Bono was excited. He cared about Africa. After headlining at Bob Geldof's revolutionary Live Aid concert in 1985, which raised \$70 million for famine-stricken Ethiopia, he and his wife Ali spent a summer working in an orphanage there. Bono had seen first hand the immense strain of repayment of debt and thought it absurd that, for every dollar of government aid the West sent to developing nations, several times that amount was coming back to them in debt repayments. But perhaps what clinched it for Bono was that he was also, despite his rock and roll pedigree, a deeply religious man, and the biblical notion of 'Jubilee', the idea that you have the right to begin again, appealed to him with its combination of moral force and profound simplicity.

'Great ideas have a lot in common with great melodies,' recalls Bono. 'They have a certain clarity, a certain inevitability, and an instant memorability. And I couldn't get this one out of my head. I knew it was right, and that the time was right for this and I couldn't let it go.'

But while the pierced and sunglasses-wearing rock star might have been able to fill giant stadiums, Bono was a nobody as far as American politics was concerned. If he was to play a part in putting debt relief on the US political agenda, he needed help. So he phoned a woman he thought might be able to do just that. Bono knew Eunice Shriver – the founder of the Special Olympics, and daughter of Rose and Joseph Kennedy – from a charity recording project, describing her as a 'Hibernophile', a person who knows more about Irish culture and politics than most Irish people. She told him that she'd love to help, and suggested that he get in touch with her son: 'I think Bobby would be good at this,' Bono recalls her saying. 'And I knew Bobby, but hadn't thought to ring him. And he *was* good. He was more than good.'

For while Bono had passion, Bobby had political savvy. Shriver immediately knew that in order to get the United States to really commit to debt cancellation, it was essential that not just the Democrats, but also the Republicans, right-wing journalists and, most importantly, Wall Street blessed their proposal. With this in mind, one of the first things Bobby did was set up the meeting between Bono and the well-connected Gelb.

But Bobby also knew that Bono couldn't just go and meet the men on Gelb's list until they both knew their subject back-to-front. 'I had been minding my own business,' Bobby recalls, 'making records, producing movies, when I got Bono's call. I knew *nothing* about debt, but I did know I wasn't going to Washington with him, or to see anyone at all, unless we really knew what we were doing. *W really* had to know what we were doing.' So Shriver picked up the phone to 'a guy I knew who was doing a lot of work on this subject.' That guy was Jeffrey Sachs, one of Harvard's most famous economics professors.

'I called Jeff up and I said, "I have this friend that I did the Christmas record with, a musician called Bono, and if he comes over to Cambridge, will you spend a couple of days with him and try to get him up to speed on the actual numbers?"'

Sachs was forthcoming. 'Sure I wanted to meet Bono,' he recalls. But debt cancellation had been

something *he* had been advocating for years, to little avail and he was sceptical of the impact the musician could have. ‘It’s never going to work,’ Bobby remembers him saying. ‘No one in Washington will pay any attention to you. We can’t get anyone to pay attention to this issue.’

But by the end of their two-day crammer session Sachs felt differently. Shriver recalls Sachs’ palpable excitement: ‘He said, “This guy is a very persuasive guy you know, maybe something *can* be done.”’

With Bono thoroughly briefed, it was time for Shriver to start spinning his Rolodex.

His first call was to James Wolfensohn, the head of the World Bank, a man who Bono had been trying to meet ever since Jamie Drummond had first approached him, but with no luck. Shriver, however, had worked for Wolfensohn some 10 years back, in between leaving law school and entering the music business. ‘So I called Jim and his office put me through to him in London and I said, “I’m sure you’ve heard of this Jubilee debt relief thing?” And he said, “Of course.” And I said, “I have this friend who’s a singer, who is a sort of activist on this debt thing – and he’d like to meet you.” And he said, “Oh no, I don’t have time for that.” And I said, “Jim, he’s in Dublin. You’re in London. Why doesn’t he come over tomorrow? It’s Sunday. You have nothing to do on Sunday.” And he said, “Okay, tell him if he can be at the Berkeley Hotel at noon, I’ll have lunch with him.” I called Bono, and said, “If you can be at the Berkeley at noon tomorrow, Wolfensohn will have lunch with you.” And Bono said, “Wow, can I bring Geldof?” [the knighted lead singer of the Boomtown Rats and founder of Live Aid], and I said, “It’s up to you, man. It’s your lunch. Whatever you want.” And I called Wolfensohn back and said that Bono would be there at 12 and was going to bring this other guy.’

The lunch was a disaster. ‘Afterwards Wolfensohn called me,’ recounts Bobby, ‘and he was furious because Geldof had yelled at him the whole time.’ Bono confirms it. ‘Yeah, Bob was like, you fucking this and you fucking that, and how can you fucking sit here in your fucking seat, you prick. And Jim Wolfensohn is a real debonair sort of gentleman, and he looked over at me with that look of “help” on his face. But we got on.’

‘He liked Bono,’ says Shriver. ‘He thought he was bright. And said that if he wanted to work on trying to get money for debt relief he would do what he could to help.’

Game on.

Next up was the highly influential central banker and former Chairman of the Federal Reserve, Paul Volcker. ‘Volcker laughed at me when I first raised the idea of debt cancellation,’ recounts Bono. ‘Just laughed out loud – ha ha! He said, “I hate this idea. I hated it in 1968, I hated it in 1972, I hated it in 1985, and I hate it now. You’re from Ireland, aren’t you? You should stick to fishing.”’ But Bono would not rise to the bait. He patiently explained that the Jubilee campaign was different. It wasn’t just about cancelling the debt, he told Volcker, it was a one-off opportunity to level the playing field, to put right the relationship between North and South, a relationship that had been wrong for far too long. His patience paid off. ‘At the end of a very long meeting,’ Bono recalls, ‘Volcker said “Give me your phone number.” And he not only made a few calls on my behalf. He helped. It may have been behind the scenes, but he actually helped.’

After Volcker came Rockefeller, the wise old man of Wall Street, and former Chairman of Chase Manhattan Bank. ‘That meeting went really well,’ Bobby remembers. ‘We discussed then-current initiatives, and the problems with these. We corresponded back and forth for several months.’ And after Rockefeller came Holbrooke and after Holbrooke, Bob Hormats, Vice Chairman of Goldman Sachs.

Bono and Bobby were ready to hit DC.

Robert Rubin, the US Treasury Secretary at the time, was evasive. ‘I just couldn’t get to him,’ recounts Bono. ‘I even said I would swim to wherever he was at one point.’ Rubin was a devotee of Alexander Hamilton, America’s first Treasury Secretary, who famously insisted after the War of Independence that the individual states repay all their debt. Rubin, not surprisingly, was dead set against debt cancellation. But when they did eventually meet, thanks to Hillary Clinton’s intervention Rubin, although clearly never going to be an advocate, indicated that he would not stand in their way.

Word got to Bono and Shriver that Larry Summers, the Treasury Secretary-in-waiting might be more proactive. Summers had formerly been the Chief Economist at the World Bank, and development was a known passion of his. But, again, just getting the meeting wasn’t easy.

‘I didn’t particularly see why I had to hang out with a singer I’d never heard of,’ Summers recounts. ‘But the young women on my staff told me I had to see him.’

‘It’s true. Larry had no idea who Bono was, nor had he heard of U2,’ confirms Sheryl Sandberg, Summers’ Chief of Staff at the time. ‘It was a cause of great hilarity in the office. But I was his Chief of Staff, which meant that requests came through me, and I would then make recommendations as to who the Secretary should or should not see. As a cabinet member, your time is the only commodity you have, so we took the scheduling process very seriously. And when this request came in, I was like we’re doing this meeting, we’re not going to have a normal conversation.’

But Summers wanted to lie low. About to be sworn in as Treasury Secretary, the last thing he needed was a gossip item about him meeting a pop star, perfect ammunition for his political enemies already labelling him a liberal flake. The meeting could not take place in his office. Instead, it was set up in the White House offices of Gene Sperling, the Head of the National Economic Council, across the street from the Treasury.

‘There were about six of us round the table when Bono walked in, wearing jeans and sunglasses, which is not what you’d expect in the White House,’ recounts Sandberg, ‘especially as Larry didn’t really get that he’s, like, a rock star.’

‘I didn’t feel I had a very good meeting with Larry,’ says Bono now. ‘I didn’t think the pitch went very well. It wasn’t one of my better days, and he was drumming on the table with his fingers while I was talking, distracted.’

But those at the meeting remember it differently. Stephanie Flanders, Summers’ former speech writer was impressed. ‘He was massively informed on the subject,’ she recalls of Bono. ‘He was referring to a lot of turgid studies – documents on the debt issue, reports for Congress. Everyone was really impressed.’

Sandberg agrees: ‘He knew what all the acronyms were, he knew how the debt flows worked, he knew about capital risk.’ Summers himself sums it up: ‘He turned out to actually know a ton about debt.’

Finally, when the meeting was winding down, Bono, looking Summers straight in the eye, said: ‘I’ve been all over the world, and every single person says if I can get Larry Summers, I can get this done. Because if *he* wants this done, it’ll be done. So I’m here to get *you*.’

Sandberg remembers the surprise on the faces around the table. ‘It was kind of just like, whoa,’ she recalls. ‘Very few people come in with that much force and speak to the Secretary of the Treasury in that way. And it was very inspirational. I think we all wanted to believe that something like this could happen, that it was worth fighting for.’

‘Bono had an effect on me,’ admits Summers. ‘His presence suggested there was a big constituency out there who cared about debt.’ So although his response at the meeting was a non-committal – ‘let me think about it’ – Summers turned to Flanders when Bono had left the room, and

said: 'I think the Administration has just had its consciousness raised. This guy's right. We have to do this.'

The first step was getting then President Bill Clinton to pledge to cancel 100 per cent of the debt owed to the US by the world's poorest countries – a goal that Professor Sachs had persuaded Bono to push for. Although various debt-relief programmes had been in place for the past few years, thanks largely to the British Treasury's championing of the cause, they had only required that creditors cancel a percentage of what they were owed, rather than the whole amount. Debtor countries, therefore, never actually received what they needed to become solvent.

One hundred per cent debt cancellation would send a clear signal to the international community that the to-ing and fro-ing on debt relief wasn't working. It would also set the standard for other creditors to follow suit.

'Cancellation,' not 'relief of the debt was a distinction that had been made explicit a few months before, after Bono met with Sandy Berger, Clinton's National Security Adviser, the morning the US had gone into Kosovo. 'He hadn't been to bed,' Bono remembers. 'He'd been up all night, he was bleary-eyed, and Clinton had sent me down to meet him, you know talk to him about it. So I'm sitting there and he was scrunching his red eyes, saying, "Run that by me again? Debt relief, debt relief. Good that just sounds so wrong in this environment. You're a songwriter – can't you come up with something better than that?" And I said, "Debt Cancellation," and he said, "That's better. Relief sounds like a handout. Cancellation sounds like justice."'

Selling the idea of cancelling debt to Clinton wasn't hard. The President had just come back from the G8 meeting of the richest developed nations in Cologne, where debt relief had been high on the agenda. He had already pledged to contribute to funding the IMF and World Bank's debt relief efforts and also to increase the amount of American debt that would be cancelled. But cancelling *all* the debt owed to the US was another matter. Could the United States really afford it?

It was up to Summers to convince the President.

'I remember a frantic weekend in which Larry, Gene [Sperling who'd facilitated the first meeting with Summers] and Gene's niece who he was minding, had come in on the Saturday to do the numbers and try to make it happen,' recounts Bono. 'Busy, busy people coming in on a Saturday to get shouted at and reasoned with. Trying to work out what it'd actually cost to cancel these debts. The extent to which they could be written down so that we could meet the 100 per cent cancellation objective.' (Forgiven given that there was no real possibility of their ever being repaid in full, these debts could be discounted so as to reflect a realistic market value.)

'And we did it,' says Summers with a smile. 'In the last 36 hours we worked out that we could afford to do this.' By writing down the value of their loans by approximately 90 per cent, the real cost to the United States of cancelling the \$6 billion debts owed would only amount to around \$600 million.

On September 29, 1999, at a speech at the World Bank, with Summers' numbers in his back pocket, President Clinton announced that the United States would cancel 100 per cent of the \$6 billion debt owed it by the world's poorest 33 countries – the first country in the world to make such a huge commitment.

Bono was in France when he heard the news of Clinton's announcement. 'I got a phone call from Bobby and it felt like, you know, just the biggest thing ever. We had been working so hard, I was jumping up and down. It was a real break-through. One hundred per cent, no nonsense, no games. The United States were stepping out in front. Okay, it was only 33 countries [Jubilee had been calling for the cancellation of the debts of 52 poor countries] but it was a clear melody, a clear cut idea.'

It seemed as though they were on track. But when Bono started to hear the critics say that Clinton was only doing this because he knew it wouldn't get past Congress, that Congress would never fund the scheme, he was reminded of just how complicated his mission was. Because in the United States, it is Congress and not the Administration that holds the purse strings. And Congress was controlled by the Republicans. If the money to fund Clinton's 100 per cent debt cancellation pledge, as well as meet the commitment he had made at Cologne to contribute to bailing out the IMF and World Bank – \$545 million in the first instance – was to be found, it was Republicans who were going to have to vote for that amount to be released.

Getting \$545 million dollars allocated to what is essentially foreign aid was, in a Republican-controlled Congress, never going to be easy. Money to poor countries doesn't tend to poll well for American politicians. 'It was very hard even for people who wanted to be for this, to be for this,' explains Sandberg. 'Debt relief for Africa? The United States just doesn't do this.'

It was time to get the Terminator involved.

Bobby Shriver, who had done such a majestic job in getting the bankers, liberals and *cognoscenti* on board, wasn't the man when it came to bringing the Republicans on side: his Kennedy lineage got in the way. His sister Maria, however, was married to someone who helped him get over that problem. Arnold Schwarzenegger, the movie star and Bobby's brother-in-law, was already, five years before becoming Governor of California, moving in Republican circles.

'Bono and I explained the idea to Arnold,' remembers Bobby, 'and Arnold thought about it and said, "I know a guy who might help you. A friend of mine who's the Congressman from Columbus, Ohio, John Kasich."'

Kasich, who Schwarzenegger knew through the 'Arnold Classic Body Building Contest' which is held in Columbus each year, was, at the time, the Chairman of the Budget Committee in the House of Representatives, a very influential position. He was no namby-pamby liberal. 'John was a hard, right-wing guy,' says Shriver, 'and someone who was very smart. Not book smart like Larry. But, you know, street smart. Smarter than most people in Congress. And he got what we were talking about. He had travelled overseas, and could see that people did not like Americans. This was before 9/11. And he didn't like that. And he saw that cancelling their debts, for what, in his view, was a relatively small amount of money, was a way to say to people, "Look we're not just a bunch of pricks flying B1 Bombers over your country.'"

Kasich came on board, and his support was key. Not only did he bring with him other important members of the Republican leadership including House Speaker Denis Hastert, and House Majority Leader Dick Armey, but also lower-profile but equally essential Republican politicians from both House and Senate.

And, in November 1999, two months after Clinton's historic pledge, Congress agreed to appropriate \$110 million.

Although this was a start, the \$110 million was far less than the \$545 million the campaigners had been after. This would only cover the first year of America's own debt cancellation schedule, and it didn't cover any financing for the participation of the regional development banks in the debt cancellation initiative, nor provide for the IMF and World Bank, the poor world's major creditors, to cancel any of their debts. If the international Cologne initiative was not to crumble, an additional \$435 million had to be found.

'I called Bono,' recalls Sandberg, 'and said, "If you want to help get this through, you've got to come back to town." We needed him. Bono could get in to see any member of Congress and we needed to rally support. He said that he was recording his new album, and making a documentary and

couldn't come to town over the next few weeks because they were filming. And I said if you can't come now it'll be too late. Two days later, he was here. And once he landed in DC he was a machine. He went round from member to member telling them that they could change the world if they got behind us. He would get up early in the morning, and would walk the halls and work it all day. And then we would have dinner late at night and he would still bring a Member of Congress or some staffer. He was tireless. And when you think of the combination of a rock star who can get in to see anyone and someone who knows as much as some staffer who works on it full time and can speak with the kind of passion that he speaks with, well, the world had never seen anything like it.'

But although politicians from every end of the political spectrum were falling under the Bono spell, one key man continued to hold out. Sonny Callahan, the libertarian conservative Congressman from Alabama, was Chairman of the Foreign Operations Subcommittee of the House Appropriations Committee, and he held the cheque book. It was up to him to recommend how much money to allocate to debt cancellation. And Callahan wasn't having any of it. He believed that the additional monies being asked for 'would encourage the World Bank and others to continue to make bad loans and leave poor countries to have to borrow and get into debt all over again.' As far as Callahan was concerned, debt cancellation was 'money down a rathole'.

Shriver got his feelers out and tried to influence Callahan through an old fishing friend, but to no avail. And, in June 2000, Callahan's committee recommended to the House of Representatives that Congress fund only \$69 million of debt relief that year even less than Congress had agreed in November, a sixth of what the campaigners had been gunning for, and an amount, effectively, that meant Clinton would have to renege on both what he had pledged at Cologne and the 100 per cent debt cancellation he had announced at the World Bank in September.

'We had basically failed,' says Shriver. 'With the Committee reporting that, it was basically over. It's almost never the case that Congress overrides a Committee recommendation.'

There was one last avenue available. If they could stage, and then win, what is colloquially known as 'a floor fight' in Congress, a challenge on the floor of the full House of Representatives against what the Committee had recommended, the recommendation could be stopped from going through.

But to win that fight they would need even more Republicans on board. And they would need to work fast – the House and Senate would make their decision on how much to appropriate for debt relief by the beginning of the new fiscal year, October 1.

With less than four months to go, the campaigning shifted up to an even higher gear.

'John Kasich [Arnold Schwarzenegger's friend, the Republican Chairman of the National Budget Committee] took the lead, and agreed to launch the fight. But we needed to ensure that when he got up and said "We're not going to accept the Committee's recommendation," others would get up and say "John is right – I agree with him. Let's not accept these recommendations, let's do the full \$435m,"' Shriver recalls. 'So we met with Jim Leach from Iowa. We met with Clinton's staff. We started calling everybody who could help challenge Callahan's recommendation. And then we called them back again and again. We got Volcker to call them, we got the President to call them. We were like animals, we would not leave them alone.'

Bono flew from Europe to Washington eight times that summer. 'He came back and forth like a tired old dog,' says Shriver. 'I would do the red eye from Los Angeles, meeting him there [in Washington]. We were pretty bedraggled. It had become beyond a full-time thing for the both of us. And when we weren't meeting face-to-face, we were back on the phone and writing to people and having conference calls, and asking people to write stuff, and finding out names of newspaper editors

in key states, and then placing articles in papers.’

‘It was kind of like the Theatre of the Absurd,’ remembers Bono, who was supposed to be delivering a new album, *All That You Can’t Leave Behind*, while all this was going on. ‘There were even times that Bobby used to hide outside meetings that I would have with Republicans. I would go in and he would hide, stay outside. He’d say, “I’m a Kennedy. You don’t need me around here.” He would have flown from LA and be hiding outside.’

The Bono-Shriver commitment, tenacity and good humour encouraged their allies to bat that bit harder too.

Kasich pulled his considerable weight. ‘He was soundly determined,’ Shriver says. ‘And he’s one of those fellows who when he gets very determined you know you really don’t want to cross him. People knew that he would just, to put it bluntly, fuck them if they didn’t go along with him.’

So they did.

Larry Summers went all out for them too. ‘He went to those meetings at a time of hostility that is hard to imagine,’ remembers Bono. ‘This was after the Monica Lewinsky affair when there was a terrible stink in the city, and he batted for us.’ Professor Jeffrey Sachs hosted a prominent conference on debt cancellation in Washington and Gene Sperling played an integral part: ‘He was always on the phone, always with great ideas of how to get things done,’ recounts Shriver. The US affiliate of the Jubilee campaign did a lot of leg work on Capitol Hill to educate Congressmen and their staff, producing form letters for their supporters to send to their representatives, and providing e-mail addresses of swing Senators and Representatives that campaigners could send out. And big business was brought on board – Goldman Sachs, Motorola, Bechtel, Caterpillar and Merck all signed an open statement calling for the full \$435 million to be found.

But, if the Congressional floor fight was to succeed, they’d need yet more support. Various key Republicans were still holding out, and Callahan needed to be, at the very least, out of the way.

It was time to call upon Jesus.

And it was Eunice Shriver who had his number. She was pals with the Reverend Billy Graham, the TV evangelist with a virtual congregation of hundreds of millions. Graham agreed to make a video for Bono and Bobby that they then sent around to recalcitrant members of Congress, a two-minute, no bells, no whistles video, in which he asked them to support Bono’s Jubilee cause.

Jesse Helms, the notoriously conservative, hugely influential Republican Senator and Chairman of the Senate Committee on Foreign Relations, a man who symbolized opposition to foreign aid of all sort, wasn’t sent a video – he was, after all Graham’s own Senator, and knew him well. But Graham’s office played an important part in enabling what became a critical meeting between Bono and Helms: they vouched for Shriver. And with this endorsement, Helms agreed to the meeting.

‘Bono connected with him in a spiritual way,’ recounts Shriver. ‘The two talked about the vast gulf between Africa’s misery and America’s prosperity. About the Bible, children and so forth. And Helms was very moved by Bono’s sincerity and evident knowledge. Not only in terms of the scripture but in terms of the financing. He said he would come on board.’

Helms’ support was what Bono had been waiting for. His entry into the fold gave permission to all those politicians who were in his anti-foreign aid camp to stop opposing debt cancellation. What’s more, the very public way in which Helms joined the team, with stories of the hard man of American politics in tears during his meeting with Bono doing the rounds, meant that the final laggards – people like Phil Gramm from Texas, who might have opposed any challenge to the Committee’s recommendation – could now safely be counted upon not to do so.

Sonny Callahan was the last hold out.

‘It was a story Harry Belafonte told me that made me go for Sonny’s bishop,’ recounts Bono. ‘Harry Belafonte said that he remembered being with Martin Luther King and a group of Dr King’s key supporters when Bobby Kennedy was made Attorney General. The team around Dr King was very depressed, because at the time Bobby was known to be quite reactionary on civil rights. They saw it as a very black day for the Civil Rights Movement, and they were all bitching about Bobby Kennedy, about what a hopeless case it was. And Dr King told them to stop bitching and said, “Look, there must be one redeeming thing about this guy – give me one redeeming thing.” And they said: “Look, I’m telling you Martin, there’s nothing redeeming about him. He’s an Irish racist.” And Dr King closed the meeting and said: “Come back when you’ve got one redeeming thing.” And when they met again two weeks later they said, “We’ve found something.” “What?” said King. “His Bishop. He’s very close to his Bishop. He’s a religious guy and he really listens to his Bishop.” So they went and met with the Bishop. And then Harry tells me, in this incredible voice that he has, “When Bobby Kennedy lay in a pool of his own blood in Los Angeles, there was no greater friend to the Civil Rights Movement.”

‘He moved. Any man can move one hundred and eighty degrees. Harry had told me this as a sort of way of steering my way and I have used the story many times as a guide. But in the case of Sonny used it literally.’

‘There were priests in the pulpit. Priests and pastors sermonizing on debt relief on Sundays, telling their congregations to tell Callahan to take care of this, including my own Bishop. Eventually gave in,’ concedes Callahan. ‘What else could I have done?’

When the floor fight finally did take place in early September and Kasich got up as planned and voiced his objections, Callahan didn’t stand in the way. Members from both sides of the aisles, in a rare moment of bipartisanship, voted to override the Committee’s recommendations.

And on October 25, 2000, Congress agreed to provide \$435 million for debt relief, the entire amount the campaigners had hoped for.

The Herculean efforts of Bono and Shriver are a beacon to what the civic community *can* achieve. And leave us with a permanent hope that we *can* get politicians to act. But did the great American gesture inspired by Bono and Shriver actually resolve the developing world’s debt crisis? Did the Cologne Initiative that they had been backing ever provide the world’s poorest countries the opportunity to make a ‘fresh start’? Were the IMF and World Bank loans ever cancelled? Was the \$435 million the start of a renewed commitment on the part of the United States, and other countries to funding development? Or were the difficulties in securing it, a warning of how hard it would continue to be to raise money domestically for foreign aid?

And what about less poor but still highly indebted countries like Brazil or Turkey or Pakistan which were not included in the debt cancellation programme? How likely is it that emerging markets such as these, if their debts continue to build up, will also reach crisis point, and be forced to call a default? And how destabilizing to the world economy would such a scenario be? With what political consequences?

And how about the two issues that most threaten the stability of our future – the environment and terrorism? How connected are they to the debt story? Is debt an issue that should just be of concern to financiers, number crunchers and churchgoers? Or should defusing the debt threat be of uttermost importance to us all?

But first, how on earth had most of the developing world at the end of the millennium ever got into a situation where it was so visibly drowning in debt? How had debt, surely a positive instrument for development, ended up becoming the cause of so much desperation and despair? What had gone s

dreadfully wrong?

THE BACKGROUND

CHAPTER TWO

It's Politics Stupid

‘Imagine your bank manager saying to you “I’ll lend you as much money as you want, as long as you’ll be my friend.”’

Debt-ency

‘Eat, sleep and shit’ was all Mao Zedong said he did while in Moscow in December 1949, his first ever trip abroad. He should have added ‘and wait’. Because in between crapping, snacking and napping, that was primarily what he did. Ensnared in virtual seclusion in one of Stalin’s dachas, in a birch forest a few miles to the west of Moscow with nothing but biographical films of Stalin to watch Mao Zedong waited for weeks to be received by the ‘steel man’ whom he had travelled 8,600 km by train to see.

The purpose of his trip was twofold. First to ask Stalin for a \$300 million loan on behalf of the newly established People’s Republic of China – Mao had no other source of ‘hard currency’ – the US wouldn’t lend to China, and China’s economy was in difficulty; and second to establish a new Sino-Soviet Treaty of Alliance.

Given that the Soviet Union was itself strapped for cash and in the process of trying to rebuild its own war-torn economy, \$300 million was a huge amount for it to lend out. Moreover, Stalin needed time to work out whether an alliance with Communist China was really in the Soviet interest, and more specifically whether Mao, a man he considered a ‘cave Marxist’, someone with no real understanding of socialism, was a necessary ally. Would he be an asset or a liability?

Eventually, Stalin buried his doubts. China was too important to risk losing. A number of countries, including India, had officially recognized the People’s Republic, and Stalin was worried that continued procrastination would risk alienating the Chinese Communists. Stalin also realized that by lending to China, the Soviet Union would be able to bank a favour it could later call in. He agreed to establish the treaty and authorized the loan.

The wisdom of the decision was soon vindicated. Only a few months later the Korean War erupted, and within weeks of the American landing at Inchon, the Russian-backed North Korean army was on the verge of annihilation. An anxious Stalin requested Chinese intervention and Mao, partly prompted by his desire to prove that Soviet support of China had been justified, obliged. Ironically, and much to Mao’s irritation, almost all of the \$300 million Soviet loan ended up being used to buy Soviet weapons to fight a prolonged war in Korea on Stalin’s behalf.

Four years later the question of debt reared its head once more in Sino-Soviet relations. In 1954, Stalin’s successor Nikita Khrushchev, in a show of ‘fraternal’ support, offered another \$500 million to Mao Zedong – at a very low interest rate of only 2 per cent. The loan was meant to be paid back between 1966 and 1967, but this time China returned the debt ahead of schedule, much to Khrushchev’s surprise. As he told the Central Committee Plenum in February 1964, the Chinese could have reaped great financial rewards on such a low-interest loan. In fact, the Soviets had made this clear to Beijing. But Mao insisted on repayments. ‘Can any of the economists understand this?’ Khrushchev asked. ‘It is difficult to understand. Only Mao Zedong can understand this.’

Mao had insisted on repaying the Soviets so quickly because he understood all too clearly that the cost of debt cannot *only* be measured in financial terms. He saw that loans from other governments often also come at a huge political cost: binding countries to each other, and creating a dependency that first establishes and then serves to reinforce pre-existing power asymmetries and he didn't want to risk being so dependent on the Soviet Union that he lost political manoeuvrability and endangered his own sovereignty. This was a similar conclusion to that reached by Simon Bolivar, the liberator of the Andean Spanish Colonies (a rough amalgam of Venezuela, Colombia and Ecuador as they are today) over a hundred years before. 'I despise debt more than I do the Spanish!' Bolivar had said to his comrades-in-arms, explaining that, '[it threatens the independence](#) that had cost so much in blood. And one echoed much more recently by the Indian government in 2002, when it paid off its most expensive multilateral loans (loans to the IMF, World Bank and regional development banks) early, and again in 2003 when Prime Minister [Atal Behari Vajpayee announced](#) to 22 donor countries that he did not want to receive their aid on a government-to-government basis any more as [India was no longer willing](#) to accept the conditions that came with it. Echoed again by Thaksin Shinawatra, Prime Minister of Thailand in 2003 when he repaid the \$12 billion loan his country had secured from the IMF in the wake of the Asian financial crisis, a year before it was due. Against a backdrop of a massive national flag and with patriotic theme songs blaring, he swore to his audience that this was 'the last time the country would be indebted to the IMF', while reminding them of what a 'pain to the nation' the debt had been.

But the responses of Mao, Bolivar, and Vajpayee and Shinawatra are not typical. Most developing countries have not and do not take a stance against borrowing. Instead developing world leaders have on the whole accepted indeed in many cases *embraced* loans from whichever government has proffered them. The reasons we will come back to later on.

It's a Cold War

At no time in recent history have loans been proffered as 'generously' as during those not so distant days of the Cold War. A money-for-influence circus with China, the Soviet Union and the United States all pursuing Communism around the ring. A time of two political and economic ideologies and three camps – the capitalist bloc under the auspices of the United States, and the Chinese and Soviet socialist blocs – with each camp seeking to win the allegiance of the greatest number. A time when loans to countries and regions shot up in direct proportion to their perceived geopolitical influence or ideological loyalties and when loans were used as a means of securing powerful allegiances and ensuring political stability.

In 1960, for example, when South Asia and the Far East were perceived as the main 'red threats' 50 per cent of all US aid (loans and grants) was sent to key 'domino' countries like South Korea, Vietnam, Thailand, India, Pakistan and Iran. Between 1945 and 1952, when the Soviet penetration of Europe was perceived by the Americans as [their greatest threat](#) it was *Europe* that received \$13.3 billion in US aid, (in that case mainly grants) while other regions had to make do with significantly less.

[The Bay of Pigs fiasco](#), in which the US attempted and failed to overthrow the Communist regime of Fidel Castro, moved Latin America onto America's list of preferred borrowers. In a speech soon after the invasion, John F. Kennedy spoke of 'the struggle in many ways more difficult than war...a struggle...taking place every day, without fanfare, in thousands of villages and markets...and in classrooms all over the globe.' A struggle which needed, Kennedy believed, foreign financial

assistance to win. Why? Not for the sugar-coated reasons laid out in his inauguration speech only a few months before.

‘[To those people in the huts](#) and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required, not because the Communists may be doing it, not because we seek their votes, but because it is right.’

But, rather, because if the Americans didn’t provide loans, ‘the reds’ would. As Kennedy proclaimed later, in an address at the Waldorf Astoria on a blustery winter night just weeks after the resolution of the Cuban Missile Crisis:

‘[Less than a month ago](#) this Nation reminded the world that it possessed both the will and the weapons to meet any threat to the security of free men. The gains we have made will not be given up, and the course that we have pursued will not be abandoned. But in the long run, that security will not be determined by military and diplomatic moves alone...Aid is a method by which the United States maintains a position of influence and control around the world and sustains a good many countries which would definitely collapse or pass into the Communist bloc...Really I put it right at the top of the essential programs in protecting the security of the free world.’

And, indeed [Latin America’s external debt](#) increased from \$12.6 billion (thousand million) to \$28.9 billion between 1960 and 1970, a 230 per cent increase, the majority of which was provided by the American government and the World Bank, the institute set up after World War II to aid *world* economic stability, but which throughout the Cold War was blatantly used by the US as a conduit of *its* foreign policy. [Among loans made by the Bank](#) were those to Nicaragua’s US-friendly Somoza regime, and to Yugoslavia once it broke from the Soviet bloc and the US had recommended that the West offer the country ‘discreet and un-ostentatious support.’ Among loans withheld by the Bank were those to Poland in 1948, because the US didn’t want money going to a Communist country and Allende’s Chile at a time when Nixon had given orders to ‘make the enemy [Chile] scream’. The lending to Chile resuming a few months after Allende was killed in a military coup.

Everyone’s at it

The rivalry during the Cold War was not just between America and the Communist ‘other’. Throughout, China and the Soviet Union also battled each other for who would prevail in the Communist World, often also using loans as a means to hold sway.

In 1965, for example, during the Vietnam conflict while Moscow was bankrolling Hanoi’s purchases of arms and ammunition, Deng Xiaoping reportedly offered an enormous loan of 4 billion yuan ([\\$1.6 billion](#)) if Vietnam agreed to abandon economic ties with Moscow.

Or take Soviet lending to decolonized Africa in the late 1950s and early 1960s. Initially this had almost nothing to do with the Cold War rivalry between Moscow and Washington. Nor was this an altruistic act. Instead it was a direct outcome of an intensifying competition with the Chinese for the leadership of the international Communist and national liberation movements: [securing influence in Africa](#) was seen as greatly important in that quest, and if it took hundreds of millions of dollars in loans to do it – as it did – so be it.

In that case, however, the West soon also got involved. The patronage of Africa by the Chinese

and the Soviets threatened *it*. As a British Foreign Office document of 1959 warned:

‘If Africa is to remain loyal to the Western cause, its economic interests must coincide with, and reinforce, its political sympathies; and one of the major problems of the relationship between the West and Africa will be to ensure an adequate flow of economic assistance, and particularly capital, through various channels to the newly emerging States. On any reckoning the amounts required will be considerable; and, if the Western Powers are unreasonably insensitive to the economic aspirations of independent Africa, the Governments of the new states may be compelled to turn to the Soviet Union for the assistance that they will certainly need.’

With that threat looming Washington launched a dual strategy to provide ‘friendly’ African regimes with weapons and also to channel funds to them through their own development agency, US-AID, along with the World Bank and other international financial institutions. As one National Security Council memorandum recommended in 1965: ‘[US-AID should be used](#) as a political weapon with the major assistance going to African friends of the US.’

Which of course meant that now that the Sino-Soviet love affair with Africa was officially a *ménage à trois*, the Soviets started to lend even more to key countries in the region to ensure that the parties they were backing didn’t switch camps. This led to the increasingly commonplace and clearly undesirable situation of rival groups within the same country being funded by either the East or the West. In Angola, for example, the Soviet Union provided loans for MPLA to purchase weapons. While FNLA and UNITA, MPLA’s enemies, purchased their weapons with *American* dollars.

How ironic that loans made during the Cold War in the name of security and peace even at the time were clearly engendering conflict and instability. And how indicative of one of the major ironies of Cold War lending: that, in the pursuit of addressing immediate national security concerns, the world’s superpowers played significant roles in laying the foundations for future insecurity and instability.

They did this in two ways. First, their profligate lending actively helped to jack up the debt mountain so that the Third World owed levels way above what many of its countries could realistically service, sowing the seeds of the crisis the developing world currently faces. And second, by the frequent bankrolling of tyrannical, corrupt, or self-seeking regimes, regimes which never considered the needs of the majority of their people in their investment decisions, whose legacies have been increasing levels of domestic poverty, conflict, unrest and civil strife.

The corrupt regime of Mobutu Sese Seko in Zaire (now the Democratic Republic of Congo), for example, received half of all US aid to black Africa in the late 1970s. Zaire’s favoured borrowing status persisting even after a damning internal memo was made public in 1978 by Karin Lissakers (later to become US executive director of the IMF). The memo did not mince its words: ‘the corruptive system in Zaire with all its wicked manifestations is so serious that there is no (repeat no) prospect for Zaire’s creditors to get their money back.’ Mobutu’s spending sprees became quite legendary: Concorde chartered for private shopping trips to Paris; dozens of estates bought in Continental Europe; the building of the world’s largest supermarket, and of a steelworks that one banker said the country needed ‘like it needs central heating’, to name but a few. Yet, despite the absolute clarity of the 1978 IMF memo and the progressive worsening of Mobutu’s spending, in 1981 the US (through the IMF) pushed through yet another loan in exchange for Mobutu making his territory available for US covert action against neighbouring Angola. [Today the people of the Democratic Republic of Congo](#) have to spend 37 per cent of government revenues servicing their debt.

– not great for a country whose [Gross National Income per capita is \\$90](#).

Another tyrannical regime, that of Saddam Hussein, was provided with loans amounting to around \$100 billion, several times Iraq's GDP, during the 1980s by governments intent on serving their own geopolitical purposes. Half of this money [came from Arab states](#), led by Saudi Arabia, in order to support Iraq's invasion of Iran. On top of this came \$7 billion worth of credits from the Russians, \$6 billion from the French, several billion from the Germans and British and at least \$10 billion from the US, much of which was covertly pumped into Iraq throughout the mid-1980s through their export credit agencies – institutions we will be looking at in the next chapter.

While European loans to Iraq were made primarily to serve the interests of their domestic arms dealers, geopolitics played a significant part in the US's decision to lend there. It emerged in the 1990s [Iraqgate-BNL](#) (Banca Nazionale Del Lavoro) scandal, backed by hundreds of US documents, that hundreds of millions of dollars of US Department of Agriculture loans had been channelled to help Iraq build its military capacity: 'BNL's loans to Iraq were part of a covert operation coordinated with Italian officials by the Reagan administration and continued by George Bush. The scheme was designed to finance the secret re-arming of Iraq, both to balance the scales in the Iran-Iraq war and to gain bargaining leverage for 50 or so US hostages who were at the time being held by the Iranians at the US embassy in Teheran.'

Clear geopolitical interest dictated lending policy throughout the Cold War. This meant that both tyrannical regimes and regimes which didn't even pay lip service to the lenders' ideological beliefs, were bankrolled by the West and the East to secure allegiance or to realize strategic goals. Zaire was lent money by the Americans although it never adopted a free market economy. Angola was lent money by the Soviets despite its insincere playacting at socialism. Saddam was lent monies by the West and Arab states up until the 1991 Gulf War despite the fact that his chemical gas bombing of the Kurdish city of Halabja which killed 5,000 of his own people and wounded 10,000 others was by then common knowledge. The Argentinian military junta of the 1970s was lent money by the US despite the fact that it was known to be 'disappearing' tens of thousands of people during its reign. As Lyndon Johnson famously observed in defence of Washington's support of [Ngo Dinh Diem](#), the corrupt and brutal but Communist-fighting South Vietnamese leader to whom over \$4 billion of loans and grants was given: '[Shit, Diem's the only boy](#) we got out there.'

The superpowers gained an obvious advantage through these loans. But why did Third World countries borrow such huge amounts of money from other countries when the quid pro quo was so explicit? When in exchange they had to promise allegiance? It's not too difficult to answer that.

In the worst cases, because their leaders knew that they could easily ill manage, misappropriate or divert funds – no bank manager would be peering over them asking them on what they would be spending the money, or how they might pay it back.

In others, because the borrower country simply wasn't in Mao or Bolivar or Vajpayee or Shinawatra's position – desperate for cash these nations *needed* to borrow money from abroad. Domestic savings weren't sufficient to finance necessary investments for growth and development or in some cases even current consumption requirements. Exports weren't providing enough foreign exchange to fund imports and service existing debts. Commodity price shocks (such as the oil hike in the 1970s) meant that they needed to offset their impacts (just as a person might take out a loan to tide them over when they lose their job). [Grants weren't available](#) at levels of magnitude needed. And either loans weren't available elsewhere or the monies being offered by the bilateral (government to government) lenders were being offered at significantly better terms than other alternatives, often at well below market rates.

But more often than not, and why the amounts borrowed were often far above what was actually needed, was because the battle for power between the East and West seemed like it would never end. As long as the superpowers were fighting it out, most Third World countries believed that they could continue playing one off against the other, and that they would remain in the money. They believed that the 'banks' wouldn't foreclose, and that the tap, which ensured that new loans were always forthcoming and that rescheduling was always an option, would never be turned off.

Although there were times when there was a real, legitimate or proper need to borrow, the lending process had become divorced from sober economics (where a low-cost loan is put to sound economic use.) Sometimes loans *were* used productively. Brazil, for example, took out many loans during the Cold War to invest in developing its manufacturing industry; some of Africa's loans were used to invest in its infrastructure. And the lenders, for their part, were sometimes sensible enough to make loans to countries that were rich in oil, minerals, coffee and other exportable resources. In other words, countries that were creditworthy. More often than not, however, the lending process was so distorted by geopolitics that the logic that underpins sound borrowing – that one incurs a debt in the hope of making an investment that will produce enough money both to pay off the debt and to generate economic growth that is self-sustaining – was simply absent. As too was the criteria that underpins sound lending – that the lender be likely to be able to repay the loan. And this isn't selective reporting. While it may be that good news is sometimes not reported, and there are undoubtedly more 'positive' debt stories out there than I have highlighted, there is no question that in the vast majority of cases this is the way it was.

All change

Once the Cold War ended, [things changed](#). The allegiance of strategically important Third World countries was suddenly perceived as unnecessary. [Loans were called in overnight](#), and new lending (which was the way many countries had been able to service old debts in the past) was either curtailed or provided under far less generous or far more conditional terms.

Moscow, in its new post-Soviet guise, and now suffering its own economic collapse began harassing the former Soviet Union's satellite states for [repayment of outstanding loans](#), having quite happily rescheduled them in the past. President Clinton started championing 'trade-not-aid' policies, despite the fact that the by now aid-addicted countries were massively weighed down with significant debt burdens that they would never be able to service through trade alone, especially given the protectionist trade policies of the West which meant that the very goods that the developing world could have hoped to export to the developed were as a consequence rendered uncompetitive.

Countries that had played off the superpowers so effectively during the Cold War now saw themselves fast abandoned by their former sponsors. North Korea was so feted by the Soviets in the 1960s that the Russians, based solely on the North Korean argument 'You must take into account that the Americans have already built an oil refinery in South Korea' even provided loans for a North Korean oil refinery, despite the fact that the country had no oil of its own. But by the early 1990s, the Soviet Union had drastically cut back its support.

Regimes that had once enjoyed the benefit of blind eyes in the lending nations were now suddenly chastised. Zaire, for example, began receiving tough messages to combat corruption from its long-time donors – messages which had never been delivered when Mobutu's support had been valued.

With a lack of concern and seriousness that can only shock, aid was significantly cut back too.

Between the last days of the Cold War, and the last days of the millennium, development aid in general fell by 40 per cent, despite the worsening financial and health conditions in much of the Third World, and despite the fact that countries were by now drowning in levels of debt to service. Entire regions were abandoned by their former 'protectors': most of Latin America [saw its US backing disappear](#) and Africa was hit hard. As the *African Research Bulletin* explained in 1994: '[The Cold War's demise](#)...has proven a setback for black Africa. Superpower rivalry once gave crucial purchases to poor lands with prized real estate for military bases, or a grip on maritime "choke points", or large reserves of strategic materials...Africa's leverage has markedly weakened.'

Many nations caught in the backdraft of the new global power vacuum were left to scramble for new loans, aid and 'patrons', in often quite poignant ways. In 1993, Vietnam made the extraordinary offer to take up the debts of the former South Vietnam hoping that honouring the repudiated wartime debt would help it to attract more Western loans. Particularly poignant given that Vietnam, by agreeing to do so, was essentially agreeing to assume the debt burden of its former foe. Also, the country was (and continues to be) one of the world's most highly indebted poor countries. So when Vietnam eventually agreed to pay the United States \$146 million of South Vietnam's wartime debt in 1997, that \$146 million represented three-quarters of the nation's annual health budget. But as Nguyen Manh Hoa, director of the external financial division of the Finance Ministry explained: 'We had to agree on old debts so we could have new relations, such as new loans and cooperation agreements.'

By the mid-1990s, most developing countries found themselves having to face huge bilateral Cold War-era debts, often ones that had been racked up by regimes long-since vanished. In the new environment the lender had become much less understanding, and borrowers, in order to get their loans rescheduled or relieved, had to jump through many tortuous hoops (as we will see in later chapters).

Debts which had been warmly welcomed by Third World leaders as something which they could use to their advantage, became in the post-Cold War era a ball and chain weighing their countries down.

Of course, not all countries faced similar abandonment. Some retained their geopolitical importance, and continue to this day to receive loans and have their debts rescheduled or even cancelled. Turkey's regular bailing out, for example, is testimony to its position as a 'gateway to oil' as well as to its geopolitical import to NATO. Even after its disagreement with the US over the deployment of American troops during the war on Iraq, Turkey was offered up to \$8.5 billion in loan guarantees to '[relieve potential balance of payments needs](#) that may result from hostilities'.

Sometimes a country is considered too close physically to be allowed to fail. This is certainly what drove President Clinton to make Mexican President Ernesto Zedillo a \$20 billion loan in 1995, despite the fact that 85 per cent of the American public were at the time against the bailout. '[Bob Rubin](#) and [Lawrence] Summers told me if we don't do this, Mexico'll collapse, Brazil'll collapse. We had no option,' Clinton now explains.

In other cases, the battle for a country's allegiance is still up for grabs. The Chinese and Taiwanese, for example, continue to mirror the bipolar world of the Cold War by [competing for diplomatic recognition in Africa](#) and the Pacific on the basis of which can give the most aid, with the 'clients' playing them off against each other as effectively as ever. Or a country is needed on-side to fight the 21st century's new wars. Pakistani President General Pervez Musharraf's support for the war on terrorism after September 11, for example, was rewarded with a \$1 billion debt write off, nearly a third of what Pakistan owed the US. And on December 13, 2001, just two months after the attack on the twin towers, the Paris Club (the group of sovereign creditors to which a country must go to

negotiate debt rescheduling) offered Pakistan a \$12 billion ‘stock reprofiling’ of loans for 38 years under which it would have to pay nothing in debt service during the first 15 years – terms which it would have never got a few months earlier. While in January 2003, Ethiopia saw a \$30 million write-off of its US debts over a year before this was due under the Cologne initiative. The timing was clearly chosen to serve the US’s own interests – this was, after all, precisely when America was [looking to shore up support](#) for the war against Iraq in the developing world.

On other occasions, a country is given a loan simply in order to maintain influence in a region. The French provided loans to the Habyarimana regime in Rwanda in 1992 to buy weapons including Kalashnikov rifles, anti-personnel mines, plastic explosives, mortars and long-range artillery, in order to maintain its credibility and influence in French-speaking Africa. The US tends to bail out countries which are facing financial crises not only if they are nearby but also if they are playing host to a US military base. South Korea, with its large American troop presence, won US help during the 1997/98 Asian crisis, for example, but Thailand and Indonesia did not.

To this day, the moral character of the borrower often remains an irrelevance. Turkey was offered the 2003 aid and debt restructuring package, for example, despite its continuing human rights abuses (although it has been making progress in its treatment of the Kurds). The French loans to Rwanda were made to a regime known to be highly repressive and were in all likelihood the monies used to buy the weapons used to commit the terrible 1994 genocide. America’s post-9/11 debt relief package to Pakistan was made in spite of the fact that calls to Pakistan to reinstate democracy following the 1999 coup that brought Musharraf to power had not been heeded. And various central Asian countries continue to be provided with loans by the US in exchange for their support in its war against terrorism despite their own ongoing human rights violations.

It is abundantly clear that the lender is not an alms giver in the world of real-politik. The agenda is to serve the perceived self-interest of the lender, debt to be granted and withdrawn as he sees fit.

Under their thumbs

Just think how such naked self-interest could be interpreted by the borrower country’s people. In many cases, these people never got any benefits from the monies borrowed, either because the loans were used by despots to retain their internal power base or because they were unwisely spent. And then add this: the thought of how easy it is to interpret debt as a tool of subjugation, whereby countries are kept in debt specifically to keep the weak weak, the poor poor, the powerless powerless, not only to maintain pre-existing social and economic hierarchies but also to strengthen and reinforce them – something Mao Zedong, as we saw, so clearly feared.

Countries are usually only given debt relief if, as we will see, they conform to the rich world’s own set of rules. Creditors are allowed to negotiate *en masse*, while the articles of the Paris Club explicitly deny that right to borrower countries. [The US Treasury did not even consider](#) providing Nicaragua and Honduras with debt relief in the wake of Hurricane Mitch in 1998, Treasury Department officials actually admitting at the time that ‘loss of leverage’ was their reason for refusing to consider comprehensive debt cancellation for the two countries. [The United States decided](#) in July 2003 to withhold military aid from countries which refused to exempt American soldiers from prosecution by the International Criminal Court. Many examples seem to give this interpretation credence. But the extent to which this interpretation is accurate is almost beside the point. The fact that debt can so easily be interpreted in this way creates very real problems of its own. Problems that as we will see in later chapters, can harm all of us, wherever we are.

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