A millennial gift to developing nations
By Jeffrey D. Sachs

CAMBRIDGE, Mass. -- About 700 million people -- the very poorest -- are held in debt bondage by the rich countries. The so-called Highly Indebted Poor Countries are a group of 42 financially bankrupt and largely destitute economies. They owe more than $100 billion in unpayable debt to the World Bank, the International Monetary Fund, regional development banks and donor governments, often reflecting the failures of past development loans.

Many of those loans were made to tyrannical regimes to suit cold war aims. Many simply reflect misguided ideas of the past. The moral and practical case for freeing these countries from their debt bondage is overwhelming.

Jubilee 2000, an organization supported by people as diverse as Pope John Paul II, Jesse Jackson and Bono, the rock star, has called for outright elimination of the debt burden of many of the world's poorest countries. This idea is often scoffed at as unrealistic, but it is the firealists” who fail to understand the economic opportunities facing the world today.

The financial bankruptcy of the poorest countries has been evident for at least 15 years, but the I.M.F., the World Bank and the rich countries have delayed real solutions to this chronic problem. The World Bank and I.M.F. take great pride in claiming that their loans never go bad. So instead of recognizing reality, they lend the poorest countries new money to repay the old debts, claiming that the loans are still sound.

Economics ministers from poor nations spend all of their time negotiating to stay one small step ahead of outright default, without the time or financial stability to address long-term problems. The only winners are the staffs of the I.M.F. and World Bank, which have invented a perpetual motion machine for endless missions to these hapless countries.

In 1996, the creditors inched toward slightly bolder measures. The I.M.F. and World Bank announced a relief program with great fanfare, but without including any true dialogue with the affected countries.

Three years later, these plans have failed. Just two countries (Bolivia and Uganda) were given about $200 million, while 40 others continue to wait in line. In this same period, the stock market wealth of the rich countries has grown by more than $5 trillion, more than 50 times the debt owed by the 42 poor countries.

So it's a cruel joke for the world's wealthy governments to protest that they can't afford to cancel the debts. The poorest nations owe about $106 billion in total to the I.M.F., World Bank, international commercial banks and rich-country governments. The I.M.F. is sitting on $22 billion of unrealized capital gains on its gold reserves, since it values its gold at $47 per ounce rather than the true market value of $262 per ounce.
By selling just a third of its gold reserves, it could achieve the $7.8 billion needed to write off the debts to the International Monetary Fund in their entirety, without even touching the remaining balance sheet. In addition, the I.M.F. balance sheet already abounds with special reserve accounts intended to absorb loan losses in an orderly way.

Similarly, the World Bank could readily absorb a full writedown of its claims out of its own resources. It would have to use special reserve funds already set aside for loan losses, dip slightly into its capital base and slim down its future lending to the poor countries. But with debt relief, the poor nations would no longer need this financing at the same level.

The commercial banks in total have claims of about $19 billion, a tiny fraction of their lending to developing countries. Most of this is already written off in their balance sheets, so a full writeoff would be easily absorbed.

The United States, for its part, isn't so foolish as to count its roughly $6 billion of claims on the poor nations at face value. These loans are already carried on the books at about 10 percent of their face value, or around $600 million. Thus, to cancel entirely the American claims on the poorest countries would require a budget outlay of just $600 million. The situation is analogous for other creditor governments.

Rough guidelines might hold that 80 percent or so of the debts would be canceled outright. The remaining 20 percent would be repaid in local currency, for uses in new social programs aimed at overcoming the multiple crises of health, nutrition, water and sanitation that threaten the very survival of these societies.

The problems of H.I.V. and AIDS, malaria, malnutrition and water control all cross national boundaries, especially in Africa. Therefore, we should insist that Africa's regional groupings, like the Southern African Development Community help set the terms. By forcing cooperation among the poor countries, the donors would be emulating the strategy of the United States in designing the Marshall Plan, which achieved success in part by fostering extensive economic cooperation among European countries.

Important leaders throughout Africa, tested at the ballot box, are in place to lead this effort, including President Obasanjo of Nigeria, Thabo Mbeki of South Africa, Navin Ramgoolam of Mauritius and Yoweri Museveni of Uganda. In the case of the poor countries, today's visionaries may prove to be the realists.

Jeffrey D. Sachs is the director of the Center for International Development at Harvard University and serves as an economic adviser to Jubilee 2000 and to many developing countries.