

# Debt Relief and US Foreign Policy

# Importance of Debt Relief

## 1) Real Consequences for People

Ethiopia, 1996: 10 bn in debt

Debt/GNP ratio: 169

Mali: 4% of GNP- pay Debt

3% of GNP- Health Care

2% of GNP- Education

Importance: 2) Threatens US Economy

i.e. Asia and Argentina

## II. Origins of the Debt Crisis

1970s: LDCs Struggle

- 1) Bilateral Aid Declines
- 2) Increased Oil Prices
- 3) International Recession
- 4) Population Increases

# They Borrow the Money

## 3 key Concepts

- 1) current account balance- exports-imports.  
Negative means you owe money
- 2) Petrodollars- money earned from oil exports
- 3) floating rate loan contracts- IR is based on market IR changes

## Total Debt of LDCs

1977	\$141 bn
1981	\$293 bn
1998	\$150 bn

1) International Shocks

2) Domestic Problems

Debt Crisis:

1982: Argentina suspends payments  
on its \$37 b in external debt

1982: Mexican govt announced its  
inability to service its foreign debt

## Management of the Debt Crisis:

1) Rescheduling

2) Lending by IMF And World Bank

Lending was based on Liberal Reforms- Cut Deficits and Enact Free Trade.

Also, Raise Interest rates and restrict money supply

# Current Approach

Debt Relief- Forgive Debt if meet requirements

## Criticisms:

- 1) Too Slow
- 2) Still too many Negative Conditions
  - A) Low Wages
  - B) Increase Unemployment
  - C) Decrease Services and Benefits
  - D) Exports over Local Production  
(Globalization gone Awry)
  - E) The Poor get Poorer

Alternatives: 1) Total Debt Relief

Problems: 1) Countries have  
inefficient economies

2) Domestic Politics

2) Multilateral aid should be grants not loans

1) Expensive

2) Undercuts reform efforts