

THE ATLANTIC MONTHLY

THE AGENDA

THIS MONTH, *Archbishop Akinola up close; Diana Mosley in memoriam; how marriage affects male productivity*

PHILIP JENKINS

“Even in the world of animals, dogs, cows, lions, we don’t hear of such things,” Archbishop Akinola, of Nigeria, has said of homosexuality. The powerful Akinola’s views could help bring about global schism for the 75 million adherents of the Anglican Communion this fall.

PAGE 46

MARK STEYN

“Diana Mosley was the last person alive to know both Churchill and Hitler. The former was married to her second cousin, the latter came to her wedding reception.”

PAGE 52

PRIMARY SOURCES

“Love gives you wings,” goes the old saying, but new research suggests that—for professional men, at least—marriage has the effect of clipping them ... What causes male productivity to ‘turn off’ after marriage?”

PAGE 54

THE WORLD IN NUMBERS

“A country with a population equaling the number of those murdered by governments from 1900 to 1987 would today be the sixth largest on earth.”

PAGE 56

ODIOUS RULERS, ODIOUS DEBTS

Should the people of Iraq be forced to pay back money borrowed by Saddam? A Nobel laureate makes an urgent case for forgiveness

BY JOSEPH STIGLITZ

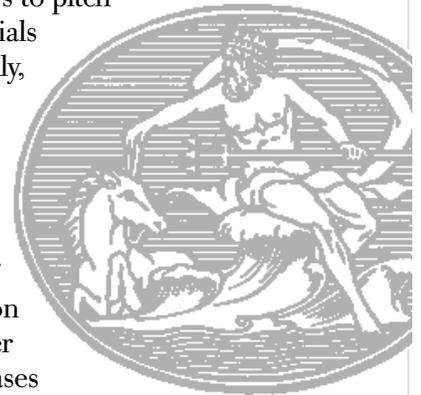
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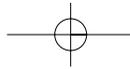
At the end of World War I, John Maynard Keynes, later to become the founder of modern macroeconomics, returned from the Versailles Treaty negotiations disappointed by the outcome and wrote a forceful little book, *The Economic Consequences of the Peace*. Its message was simple: the burden of reparations imposed on Germany would lead to economic crisis and social and political turmoil—and the result would not be good for Europe. Keynes turned out to be right.

Today, after a decade of isolation and a devastating war, Iraq faces the daunting task of reconstructing its economy while moving from a form of ersatz socialism to market capitalism. The United States waged war in Iraq without significant assistance from other countries, spending \$80 billion or so on ordnance, equipment, humanitarian aid, and troops, and has so far remained almost alone as it tries to make peace. Now, the Bush Administration argues, it is time for others to pitch in. The important thing at this point, U.S. officials suggest, is to get Iraq on its feet again economically, because then the country will be able to tap into its immense oil wealth, making further international assistance unnecessary.

The problem is that Iraq today is encumbered by huge debts—with estimates totaling anywhere from \$60 billion to the hundreds of billions, which includes reparations imposed on the country after the 1991 Gulf War and earlier debts incurred because of ammunition purchases and contracts signed under Saddam Hussein’s regime. As Iraq’s oil starts to flow again, much of the revenue it generates may go directly into the hands of international creditors, greatly impeding reconstruction efforts. Iraq needs a fresh start, and the only real way to give it one would be to free the country from what some call its “odious debts”—debts incurred by a regime without political legitimacy, from creditors who should have known better, with the monies often spent to oppress the very people who are then asked to repay the debts. Most of Iraq’s current debt was incurred by a ruthless and corrupt government long recognized as such—although complicating the matter is the fact that the Iraqi regime appears to have received some support from the United States under Ronald Reagan.

Debt relief in Iraq will not be simple. Russia and France, for example,





are unlikely to be willing to forgo the entire, and significant, sums owed them in order to help rebuild an economy devastated by an invasion they opposed. Kuwait, too, is owed enormous sums, in reparation for the *first* Gulf War. International agreement on the need to invade Iraq proved impossible to come by, and there's no reason to think that agreement on the matter of debt relief will be any easier to achieve.

Of course, Iraq isn't the only country that would like to see its debts forgiven. Why should the Congolese be forced to repay Cold War loans made by Western countries to buy Mobutu's favor—especially since the lenders knew full well that the money was going not to the people of the country but to Mobutu's Swiss bank accounts? Why should Ethiopians have to repay the loans made to the Mengistu "Red Terror" regime—loans that made it possible to buy the arms used to kill the very people whose friends and relatives must now repay the loans? Chileans today are still paying off debts incurred during the Pinochet years, and South Africans are still paying off those incurred under apartheid. Argentines are still repaying the money that financed the "dirty war" in their country, from 1976 to 1983.

Regrettably, we have no rule of law at the international level for the restructuring of government debts. In the past,

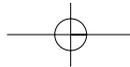
Western governments had an easy way of dealing with countries that didn't meet their financial obligations: they invaded them. Today we live in what we hope is a more civilized world: we no longer openly condone armed attacks by one country on another for a failure to pay up. At the level of personal debt we've made progress, by instituting bankruptcy laws to replace debtors' prisons, portrayed so graphically in the work of Charles Dickens. And yet to date we have no parallel set of laws governing the restructuring and relief of international debt. Two years ago the International Monetary Fund at last recognized that this is a major problem and proposed a set of guiding principles. Achieving international consensus on these principles would have been difficult (the IMF was insisting, problematically, that it serve as the bankruptcy judge, or play some other central role in the bankruptcy process, despite the fact that it is one of the international community's major creditors), but the United States pronounced the initiative unnecessary, effectively blocking it altogether.

What we are left with is a set of ad hoc initiatives based informally, and to a disturbing degree, on the shifting interests of the United States, which on this issue has eschewed international cooperation to pursue a "having the cake and eating it too" strategy. We are perfectly willing to countenance debt forgiveness

when other countries are owed money, but if our own money is at stake we argue eloquently for the sanctity of contracts, regardless of the political circumstances. When the corrupt Suharto was overthrown, in 1998, America was adamant that Indonesia honor the contracts the U.S. government had encouraged the country to enter into. When India threatened to abrogate energy contracts with Enron (deals that forced that country to pay outrageous prices for electricity), top officials in the Bush Administration insisted that the contracts be honored. Contracts that are as disadvantageous to a country as the Enron contracts were to India naturally raise suspicions of corruption. Of course, we have a national law, the Foreign Corrupt Practices Act of 1977, that prohibits bribery by American firms working abroad, but this certainly doesn't mean that U.S. firms are never corrupt. In recent years other governments have adopted similar anti-corruption commitments, but we are rightly suspicious of those promises—as other countries are of ours.

We need an international "bankruptcy" court, with no vested national interest, to deal with debt restructuring and relief, and to ensure a fair sharing of the burdens this would create. The United Nations could devise a set of principles—a rule of law—that would guide the court as it assessed the validity of contracts made with, and debts incurred by, outlaw regimes. Loans to build schools might be permitted, and the debt obligation, accordingly, would not be treated as odious; loans to buy arms might not. In some cases the court might decide that a loan for an ostensibly good purpose ran a high risk of being used for nefarious objectives—in which case the loan would be treated as an odious loan and disallowed. Governments and banks that lend money to oppressive regimes would be put on notice that they risk not getting repaid, and the contracts and debts of countries with outlaw regimes would be re-examined once those regimes were no longer in power.

ILLUSTRATIONS BY STEVE BRODNER



Even when creditors and borrowers are honest, even when creditors practice due diligence (lending only if the prospect of repayment is reasonable), unexpected developments can make repayment extremely difficult, if not impossible. Prices of exports can plummet, prices of imports can soar, and interest rates can rise—a situation faced by many Latin American countries in the early 1980s and again in 1998. Although we take great pride in the sophistication of modern financial markets (which use derivatives to manage risks, and which in principle shift burdens from those less able to bear them to those more able), the sad fact is that less developed countries have been left to bear the brunt of interest- and exchange-rate fluctuations. We must now recognize that debt forgiveness and debt restructuring make as much sense for governments—benefiting debtors and creditors alike—as they do for companies and individuals. Absolutely nobody gained from the overhang of debt in Latin America in the 1980s, a decade during which growth in the region stalled and poverty increased enormously. Creditors certainly didn't get their money back, and it was only with the implementation of the long-delayed Brady plan of debt restructuring, set in motion by U.S. Treasury Secretary Nicholas F. Brady in 1989, that growth resumed.

The bankruptcy of a state differs from private bankruptcy in several important ways, of course. Creditors can seize assets from a private debtor, but this is typically not possible in the case of government debts. Many courts may vie for jurisdiction; few can enforce judgment. Government debts tend to involve many “public claimants” in addition to formal creditors—including, for instance, those who are owed retirement benefits or are demanding health or education services. In fact, U.S. bankruptcy law has a special chapter on public entities, dealing with not only the existence but also the primacy of public claimants.

As for the current, urgent case of Iraq, the public claims of the Iraqi people for debt restructuring and relief must take precedence over the debt obligations that now saddle the country. Foreign creditors—France, Russia, Kuwait—are nevertheless likely to attempt to enforce their claims, quite possibly by trying to seize the proceeds from the sale of Iraqi oil. Whether in the long run such claims would be sustained is only one thing at issue; the real worry is that they might well interfere with the marketing of Iraqi oil, and thus with the privatization of the Iraqi oil companies. Indeed, fearing the legal battles that may be in store, international oil companies have already expressed a reluctance to come into Iraq—a good example of the price the United States and the international community will pay for not having developed a legal framework to handle such claims.

The United States is slowly learning the costs of unilateralism. Countries such as India and Turkey are refusing to help maintain the peace in Iraq outside a UN framework. Globalization requires more cooperative action among the countries of the world—but such action *has* to be based on democratic principles and a rule of law. If the United States expects the international community to work cooperatively on the reconstruction of Iraq's economy, and to cut Iraq the slack it needs on its debts, then America must commit itself to something in return: the establishment of a framework for addressing debt relief, debt restructuring, and odious debts—a framework that includes an international court that can develop and enforce a set of widely agreed-upon principles. Only with those principles in place will decisions seem fair. And without them the prospects for winning the peace in Iraq will further diminish. ▣

Joseph Stiglitz, a former chief economist of the World Bank, a former chairman of the Council of Economic Advisers, and a member of the Cabinet under President Bill Clinton, received the 2001 Nobel Prize in Economics. He is a professor of economics and finance at Columbia University.

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