

# DEBT

THE World Bank and IMF plan to turn the debt Jubilee on its head – bailing out global banks at taxpayer expense while claiming to help the world's poorest countries.

But debt-laden countries will still have to pay all their available income as debt service. Not a penny will be freed for their own discretionary use, argues **MICHAEL HUDSON**.

Lost is an understanding of what Clean Slate and Jubilee proclamations were all about.

**A**DVOCATES of debt relief for impoverished countries made what they hoped would be a breakthrough when the World Bank and IMF agreed to join the world's richest central banks and sell gold and use the capital gains to finance a debt-relief fund for the 1996 Heavily Indebted Poor Countries Initiative (HIPC). But this plan and its successor, the Cologne Debt Relief Initiative, is just another bailout for the international banks and bondholders.

Indebted Third World countries were excluded from the planning of this initiative, as were the seemingly relevant UN organisations. The only outside parties consulted were the world's largest institutional creditors. Only at the end of the process were such groups as Jubilee 2000 and Oxfam brought on board to provide rhetorical window dressing to confuse the issue of just who is being helped.

What has gone unnoticed is that the debt service actually to be paid by the most heavily indebted countries will not be reduced by even a dollar. These hapless economies will have to turn over nearly all their income above subsistence levels to private sector creditors, even at the cost of selling their mineral resources, land and other publicly owned assets to foreign investors. The proceeds will be used to pay the banks and bondholders.

What, then, is being relinquished? Only debt claims that are so far beyond the ability of such countries to pay in the next few generations as to be effectively uncollectable.

The World Bank/IMF ploy (joined by the British Treasury and a few other central banks in nations whose financial interests wield considerable political power) is hardly a surprise. These two institutions have not helped make debtor countries more self-reliant. They are in the dependency business.

What makes the World Bank/IMF program a travesty is the attempt to relate it to the biblical Jubilee. The intent is to attract Christians and Jews to the biblical law of Leviticus 25. But the program has little in common with the biblical Jubilee.

**C**LEAN SLATES were practised in the ancient Near East for over 2,000 years, going back at least to 2,400 BC in Sumer. The Jewish Jubilee Year reflected its Babylonian antecedents in having three major features:

- cancellation of personal debts owed by the rural population (mainly as arrears for tax-like obligations or tribute owed to royal collectors);
- return of bond-servants (family members, including slaves) who had

- been pledged to creditors as collateral; and
- return of land rights to holders of record as of the last clean slate.

Palaces and temples were creditors, not debtors. Public debt is a relatively modern phenomenon. There was no public debt in antiquity, and hence, no pressure to cancel them. Wars had to be fought on a pay-as-you-go basis.

Wives, daughters and household slaves were returned to their families of origin. Their labour would revert to their families rather than to their creditors. But under the World Bank/IMF plan, today's most heavily indebted economies will remain in debt bondage. Their wage levels are to remain depressed by the debt burden. Whatever labour unions may win to improve their living standards will be denominated in domestic currencies. Such gains will be undone by depreciation as payments of interest and dividends interest to foreign creditors and food suppliers will work chronically to collapse the currency's exchange rate.

In today's world, liberation of bond-servants does not apply, although entire countries are to be held in economic bondage via their indebted governments. Nor are land rights to self-support resources being discussed. There is no talk of breaking up the latifundia or giving populations a right to self-support. Entire nations remain food-dependent. Most important, they also remain deeply indebted even after the faux-Jubilee. The real celebrants should be the bankers and bondholders, not the debtors.

**T**HE World Bank/IMF plan has left the indebted peasantry's obligations on the books. No personal or other private sector debts are to be forgiven, and no land transfers that occurred under economic distress conditions (or military force or other coercive means) are to be affected. Only a portion of the government's foreign debt is to be annulled, which has been deemed hopelessly beyond the capacity of the debt governments to pay. Nobody is speaking about a real Clean Slate, a genuine Jubilee.

Under normal conditions commercial banks and bondholders are obliged to take a second-place seat behind the IMF and World Bank, and often behind national governments as well. But these official creditors have now agreed to stand aside: the IMF, British Treasury and numerous governments have agreed to sell gold and use the profits as a book-credit against the book-debts that will be written off. More recently, after Britain's sale of gold plunged the metal's price, the plan was changed to accommodate South Africa and other gold miners. Official gold hold-



**MICHAEL HUDSON outside the Bank of England: he warns that financiers will not relieve indebted nations. The debt cancellation plan will rescue banks that made reckless loans, and taxpayers are the losers**

ings will simply be revalued at current market prices, without actually being sold. This ploy of relinquishing official demands for payment will “free” indebted countries to pay international banks and bondholders.

Lost sight of altogether in this sleight of hand has been a key plan of Jubilee-type proclamations: *Re-establishment of economic justice by restoring land to its former holders who forfeited it for debt arrears or sold it under economic distress conditions*. A “conditionality” constantly imposed by the World Bank and IMF is that past such sales remain irreversible. There is to be no land reform. Indeed, yet more distress sales are to occur.

**A** TRUE Jubilee would free the land’s usufruct (along with that produced by other natural resources and public monopolies) from private debt-claims. This would leave it available to be collected by the public sector to defray the expenses of government. This is how the Babylonian Clean Slates worked that formed the model for the Jubilee Year of Leviticus. But the World Bank/IMF faux-Jubilee intends for these resources to remain in the hands of creditor nations. Whatever assets remain in public hands – any remaining public lands, mines, phone systems, transport, and every asset that naturally creates a monopoly-rent – are to be sold under pressure of foreign debt-service.

Where have the churches and biblical scholars been? Why is there no protest? How have the biblical laws been so thoroughly forgotten and flagrantly misrepresented? From time immemorial these assets and their economic rents have formed the natural revenue of governments. But henceforth, their economic rents are to be paid as dividends and interest to global private investors. The land and other natural resources, as well as public monopolies are to be sold to raise the money to pay private-sector debt and remaining inter-governmental debt. Governments are to be stripped of their national patrimony. And the process is to be made irreversible.

For instance, the World Bank and IMF have insisted that Russia sell Gazprom, oil companies and other natural resources to subsidise the debts run up to finance capital flight. Sale of these resources removes their revenue from the government budget, and turns it into dividends to be paid to the new buyers. This puts chronic pressure on the exchange rate, as well as forcing the domestic tax base to be shifted onto labour.

Failure to recognise the importance of freeing the land and natural resources from indebtedness to private creditors violates the spirit of Jubilee proclamations. To understand how drastically today’s World Bank/IMF rhetoric diverges from these proclamations from Sumer and Babylonia through Judah and other Near Eastern regions, their logic needs to be understood.

Their core was fiscal policy. From the third millennium onward, private creditors waged a struggle to obtain the land’s crop usufruct at the expense of the palace. Rulers restored the land’s usufruct from private creditors to its traditional holders and cultivators so that the latter once again could pay the crop usufruct to the palace. Private creditors had lent money against this usufruct or economic surplus, and claimed the crop usufruct as interest.

The Babylonian and Assyrian word for these royal proclamations was *andurarum*, a cognate to the Hebrew *deror* used in Lev.25. What made the Biblical version different was that the Jewish authors found that kingship had become more in the character of military overlordships than the “divine kingship” by which Bronze Age Mesopotamian rulers had restored order and promoted equity. Jewish leaders accordingly took clean slates out of the hands of kings and made them part of the Mosaic covenant.

In the process, these clean slates were made chronologically regular rather than being left to the inauguration of each new ruler’s reign or to his discretion as military or environmental conditions dictated.

**F**AMILIES ran into debt for several reasons, such as crop failure. All they had to pledge was the value of their crop. Nearly every early form of fees or taxes to the palace or contributions to the temples had to be paid out of the land’s usufruct.

But the IMF and World Bank insist on just the opposite policy being pursued. The banking systems are to be based on mortgage lending as the land-rent is privatised. Land, mineral rights and monopoly rents – society’s “unearned income”, which forms the natural basis for funding governments – are to be taken by creditors. What is to be taxed is labour, not property.

Debtor countries are told to increase their export earnings by shifting land away from producing food that supports their populations. They are to add to the world’s oversupply of plantation export crops and cattle herds. Just as “sheep displaced men” in England’s enclosure movements, so the World Bank’s “agricultural” loans have been to large export plantations, typically foreign-owned.

The latifundia/microfundia land patterns create a rural exodus to the cities, affording low-priced labour. But unlike the case of the Industrial Revolution, this labour no longer can serve as loom-fodder. Women may work for low-wage garment firms, but men remain unemployed, their lives and potential wasted.

This is what the IMF calls “structural adjustment”. It means to keep living standards so low that labour cannot afford to import enough to share in the living standards achieved in the creditor-nations. If labour’s wages rise, their purchasing power is to be depreciated by devaluing the currency’s exchange rate. The raw materials export earnings of these “hewers of wood and drawers of water” is to be used to service their debt.

The semantic root of “service” is servitude and bondage. So we are back to what the original Babylonian clean slates and biblical Jubilee were designed to rectify. But now such servitude is being imposed under the program of Jubilee 2000. This is not an auspicious start to the new millennium.

**ABOUT THE AUTHOR** Dr Hudson is a former balance-of-payments analyst for the Chase Manhattan Bank and Arthur Andersen. He helped establish the world’s first sovereign-debt mutual fund (offshore) through Scudder Stevens & Clark in 1989.

The background on Bronze Age and biblical clean slates is described in his “The Economic Roots of the Jubilee,” *Bible Review* 15 (Feb. 1999). For the use of land-rent as the ancient tax base, and how rulers restored this by annulling private-sector claims for interest, see his chapter in R.V. Andelson (ed.), *Land-Value Taxation Around the World* (New York: Schalkenbach Foundation), 1998, and *Urbanization and Land ownership in the Ancient Near East* (ed: Michael Hudson and Baruch Levine), Cambridge, Mass: Peabody Museum (Harvard), 1999.

For a critique of the World Bank’s anti-development strategies, see Dr Hudson’s *Super-Imperialism* (Holt Rinehart & Winston, 1972) and *Global Fracture* (Harper & Row, 1977).