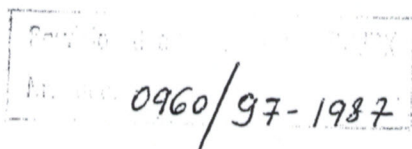


PONTIFICAL COMMISSION "IUSTITIA ET PAX"

AT THE SERVICE
OF THE HUMAN COMMUNITY:
AN ETHICAL APPROACH
TO THE INTERNATIONAL DEBT QUESTION

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PRESENTATION

The phenomenon of international indebtedness has sharply increased in the last few years, presenting new challenges to the international community both because of its size and its implications.

The remote causes for this phenomenon go back to the time when widely shared opinions about growth possibilities led developing countries to look for capital and commercial banks to offer credits for financial investments, sometimes at high risk. The prices for raw materials were favourable and the majority of debtor nations remained solvent.

The first and second oil crises of 1974 and 1979, the fall in the price of raw materials and the abundance of petrodollars in search of profitable investments, as well as the effects of overly-ambitious development programmes, contributed to the massive indebtedness of many developing countries. At the same time, industrialized countries were taking protectionist measures, while worldwide, interest rates were going up. Debtor countries became increasingly incapable of meeting even the interest on their debt.

In the last three or four years, the accumulation of payments due has reached such a level that many countries are no longer in a position to honour their agreements, and find themselves forced to seek further loans, thus getting caught in a web, escape from which has become very difficult to predict.

Debtor countries, in fact, find themselves caught in a vicious circle. In order to pay back their debts, they are obliged to transfer ever greater amounts of money outside of the country. These are resources which should have been available for internal purposes and investment and therefore for their own development.

The phenomenon of indebtedness brings to the fore the growing interdependence of economies whose mechanisms—capital flows and commercial exchanges—have become subject to new constraints. Thus external factors heavily condition the evolution of the debt of developing countries. In particular, floating and unstable exchange rates, the variations in interest rates and the temptation of industrialized countries to maintain protectionist measures have created an increasingly unfavourable environment for debtor countries that thus become still more vulnerable.

When credit agencies consider the situation solely from the economic and monetary angle, they often impose on the debtor countries terms, in exchange for accrued credit, that can contribute, at least in the short term, to unemployment, recession, and a drastic reduction in the standard of living. This causes suffering, first of all for the poorest as well as for certain sectors of the middle class. In brief, it is a situation that is intolerable and, in the medium term, disastrous for the creditors themselves. Debt servicing cannot be met at the price of the asphyxiation of a country's economy, and no government can morally demand of its people privations incompatible with human dignity.

Faced with demands that are often contradictory, the countries in question have not hesitated to react. Initiatives on both regional and international levels have multiplied. Some have advocated radical unilateral solutions. But the majority have taken into account the globality of the problem and its profound implications, not only on the economic and financial level, but also in its social and human dimensions which place before the responsible parties ethical choices.

It is to this ethical aspect of the problem that Pope John Paul II has frequently called the attention of international leaders, particularly in his Message to the 40th General Assembly of the United Nations, October 14, 1985 (n. 5).

Conscious of her mission to shed the light of the Gospel on situations involving the responsibilities of men and women, the Church once again invites all the parties involved to examine the ethical implications of the question of the external debt of developing countries, in order to arrive at just solutions that respect the dignity of those who would be most strongly affected by its consequences.

For this reason, the Holy Father asked the Pontifical Commission "Iustitia et Pax" to deepen the reflection on the problem and to propose to the different parties involved—creditor and debtor countries, financial agencies and commercial banks—some criteria for weighing the situation, and a method of analysis for "an ethical approach to the international debt question".

The Pontifical Commission "Iustitia et Pax" expresses its fervent hope that this document might contribute to a clarification of the choices to be made by those who exercise responsibility in this area, one which today has become a privileged place for international solidarity.

The Commission also nourishes the hope that these reflections will give renewed confidence to those persons and nations most severely tested, by once again strongly repeating that economic structures and financial mechanisms are at the service of the human person and not vice versa, and that relationships of exchange and the mechanisms of finance which go with them can be reformed before shortsightedness and egoisms—be they private or collective—degenerate into irremediable conflicts.

Rome, 27 December 1986.

ROGER Card. ETCHEGARAY

President
Pontifical Commission
"Iustitia et Pax"

✠ JORGE MEJÍA

Vice-President
Pontifical Commission
"Iustitia et Pax"

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AT THE SERVICE OF THE HUMAN COMMUNITY:
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INTRODUCTION

Political officials and economists, social and religious leaders, as well as public opinion throughout the world, recognize the fact that the debt levels of the developing countries constitute a serious, urgent and complex problem due to their social, economic and political repercussions. The development of the debtor countries and, at times, their very independence are endangered. The living conditions in the poorest countries have become worse, and the international financial system is going through a series of unsettling shocks.

Creditors and debtors have tried to come up with immediate—and at times even more long term—solutions on a case by case basis. Albeit insufficient and limited, these efforts need to be pursued in a spirit of dialogue and mutual comprehension, in order to see more clearly the rights and responsibilities of each party.

At the same time that current economic conditions have affected the situation of developing countries to the point that some of them, especially in Latin America and Africa, are on the breaking point because of their inability to meet their debt servicing obligations, the international financial and monetary structures are also being challenged. How did this happen? What changes in behaviour patterns and in institutions will make it possible to establish equitable relations between creditors and debtors and keep the crisis from continuing and becoming even more dangerous?

The Church shares these concerns, which are international, regional and national in nature, and wishes to reiterate and specify the principles

of justice and solidarity which will help in seeking solutions. The Church speaks first and foremost to the principal agents in the financial and monetary worlds. In so doing, she hopes to enlighten the moral conscience of the decision-makers whose choices cannot disregard ethical principles, but she does so without proposing action programmes which would be outside her field of competence.

The Church speaks to all peoples, especially those most in need, who are the first to suffer the repercussions of these disorders and do so with feelings of fatalism, defeat, latent injustice and sometimes revolt. The Church wishes to rekindle within them hope and confidence in the possibility of resolving the debt crisis with the participation of all parties and in full respect for each party.

The best way to tackle these serious issues would seem to be in a global perspective which would be at the same time an ethical approach. For this reason, it would seem necessary to highlight the ethical principles applicable to these complex situations before considering the particular choices that those concerned may be led to make, either in emergency situations or in the medium or long term.

The present text has made use of many studies on the international debt that have already appeared. Ethical in nature, this global perspective allows all the responsible parties, be they persons or institutions, on both a national and international level, to carry out a reflection, adapted to the situations that are within their competence.

To all those who will heed its words, the Church expresses, from the very outset, its firm conviction that cooperation which goes beyond collective egoism and vested interests can provide for an efficient management of the debt crisis and, more generally, can mark progress along the path of international economic justice.

I

ETHICAL PRINCIPLES

1. CREATE NEW FORMS OF SOLIDARITY

The debt of the developing countries must be placed in a broader context of economic, political and technological relations which point to the increased interdependence between countries, as well as to the need for international collaboration in pursuing the objectives of the common good. In order to be just, this interdependence should give rise to new and broader expressions of solidarity which respect the equal dignity of all peoples, rather than lead to domination by the strongest, to national egoism, to inequalities and injustices.¹ The monetary and financial issue therefore commands attention today in an urgent and new way.²

2. ACCEPT CORESPONSIBILITY

Solidarity implies an awareness and acceptance of coresponsibility for the causes and the solutions relative to international debt. The causes are both internal and external. While they are specific to each country and to each political and economic system, these causes also stem from evolutions in the international environment which depend to a great extent on the actions and decisions of the developed countries. Acknowledgement of the sharing of responsibility for the causes will make possible a dialogue which will seek joint means of solution. Coresponsibility concerns the future of countries and of entire populations, but also the possibilities of international peace based on justice.

3. ESTABLISH RELATIONS OF TRUST

Coresponsibility will help to create or restore relations based on trust between nations (creditors and debtors) and between the various

¹ Cf. PAUL VI, Encyclical *Populorum progressio*, March 26, 1967, nn. 64, 65, 80.

² Cf. Congregation for the Doctrine of the Faith, *Instruction on Christian Freedom and Liberation*, March 22, 1986, n. 89: "Solidarity is a direct requirement of human and

agents (political authorities, commercial banks, international organizations) for cooperation in the search for solutions. Mutual trust is an indispensable value which must be constantly renewed. It nourishes belief in another person's good faith, even when difficulties prevent that person from respecting his commitments, and makes it possible to continue treating him as a partner. This trust must be based on concrete attitudes which ground it.

4. KNOW HOW TO SHARE EFFORTS AND SACRIFICES

In order to emerge from the international debt crisis, the various partners must agree on an equitable sharing of the adjustment efforts and the necessary sacrifices, taking into account the priority to be given to the needs of the most deprived peoples. It is the responsibility of the countries that are better off to assume a larger share.

5. FOSTER THE PARTICIPATION OF ALL

Financial and monetary officials have the prime responsibility for finding solutions to the debt crisis, but they share this responsibility with political and economic leaders. All social categories are called to acquire a better grasp of the complexity of the situation and actively to cooperate in the choice and implementation of the necessary policies. In these new ethical domains, the Church is called upon to specify the requirements of social justice and solidarity with respect to the situations of individual countries, seen within an international context.

6. IDENTIFY EMERGENCY AND LONG TERM MEASURES

The urgent nature of the situation in some countries calls for immediate solutions in the context of an ethics of survival. The main effort will have to be brought to bear on economic and social rehabili-

supernatural brotherhood. The serious socio-economic problems which occur today cannot be solved unless new fronts of solidarity are created: solidarity of the poor among themselves, solidarity with the poor to which the rich are called, solidarity among the workers and with the workers. Institutions and social organizations at different levels, as well as the State, must share in a general movement of solidarity. When the Church appeals for such solidarity, she is aware that she herself is concerned in a quite special way."

tation: recovery of growth rates, productive investments, resource creation, equitable sharing... In order to avoid a return to crisis situations with overly abrupt changes in the international environment, a reform of the financial and monetary institutions also needs to be studied and fostered.³

II

ACTION IN EMERGENCY SITUATIONS

In the case of some developing countries, the total amount of the debts contracted, and especially the interest and principal payments due each year, are so high in relation to available financial resources that meeting these obligations would cause severe damage to their economies and the standard of living of their populations, particularly the poorest classes. In addition, this critical situation is worsened by external circumstances which tend to lower their export revenues (drop in the prices of raw materials, difficulties in access to protected foreign markets) or make their debts all the more difficult to service (high and unstable interest rates, excessive and unpredictable fluctuations in exchange rates). Unable to meet their commitments to their various creditors, some of these countries are on the very brink of bankruptcy. International solidarity calls for emergency measures to ensure the survival of these countries.

The first thing to do is to foster dialogue and cooperation on the part of all for immediate help. It is also necessary to avoid payment defaults which could destabilize the international financial system, with the attendant risks of a generalized crisis. Therefore, an ethics of survival should guide attitudes and decisions: avoid breaches between creditors and debtors as well as any unilateral termination of prior

³ *Ibid.*, n. 91: "International solidarity is a necessity of the moral order. It is essential not only in cases of extreme urgency but also for aiding true development. This is a shared task, which requires a concerted and constant effort to find concrete technical solutions and also to create a new mentality among our contemporaries. World peace depends on this to a great extent."

commitments; respect the insolvent debtor and do not burden him with immediate and intolerable demands which he cannot meet. Even if such demands are legal, they can become an abuse. With the Gospel as the source of inspiration, other types of action could also be contemplated such as granting extensions, partial or even total remission of debts, or helping the debtor to regain solvency.

The immediate needs of countries in such difficulties are a priority, but not to be forgotten are the broader perspectives of the international community and the precedent-setting nature of the solutions adopted.

The leaders of a given country bear the responsibility for monitoring their foreign debt level in order to avoid having to cope suddenly with such an extreme situation through shortsightedness or careless management.

One way to contribute to healthier international economic relations and to foster agreement about emergency measures to be adopted would be to foresee, prevent and attenuate such crises which are unfairly advantageous to some, excessively injurious to others, and often lead to unjust speculation. Coordinating structures need to be set up as quickly as possible, and doing so ahead of time would enable them to become operational as soon as needs arise, as is done in the case of standing security and protection plans in other sectors that deal with possible catastrophes and which have saved many human lives.

Because of their mandate, certain international organizations bear a special responsibility. For example, the International Monetary Fund (IMF) is responsible for helping member States to redress deficits in their balance of payments and to resolve their monetary difficulties. To this end, the IMF has at its disposal the necessary financial resources. Its role, as well as its methods of intervention, have developed considerably over the last few years. In numerous cases, however, the IMF's decisions have been ill-received by the leaders and the general public of countries in difficulty; the decisions in question may seem to have been imposed in an authoritarian and technocratic way without due consideration for urgent social requirements and the specific features of each situation. It would be advisable to bring out clearly

that dialogue and the service of all concerned are values which guide the actions taken by the IMF.

The various creditors—States and banks—also bear very concrete responsibility in the area of emergency measures. Coordination is necessary if this responsibility is to be carried out justly and efficaciously, with an equitable sharing of immediate duties both in regard to the country in difficulty and to the IMF.

Coresponsibility comes into play in the search for causes as well as decisions concerning immediate measures to be adopted. In this way, special care needs to be taken to identify, among the various causes of a country's debt situation, those that are attributable to global mechanisms which seem beyond control; for example, the fluctuations of currency used for international contracts, shifts in the prices of raw materials which are often the object of speculation on the major stock markets, or the sharp drop in oil prices.

Helping whoever is in dire need is indispensable but it is not enough. That type of assistance would even be illusory if at the same time the foundations were not laid for economic and financial recovery in the future. Most often the crisis does not depend on a simple accidental convergence of factors but rather on deeper causes which a crisis brings to the surface. Emergency arrangements must be linked to medium and long term adjustment measures.

III

JOINT ASSUMPTION OF RESPONSIBILITY FOR THE FUTURE

Financial and monetary relations between countries are complex and in constant evolution. According to the relative value of a country's currency, its trade volume, available natural resources and the technical capacity to exploit them, as well as the degree of confidence it is able to generate abroad, each country occupies a position of weakness or strength, power or dependence which, in turn, is also subject to change.

An indepth analysis must therefore be made in order to determine the specific responsibilities of each country in terms of both immediate and future action. An initial overview of the situation shows that there is a plurality of agents and organizations, each with specific functions and more or less extensive freedom of action—and therefore of initiative and responsibilities. These agents differ according to their functions and their international positions and can be grouped as follows: the industrialized and the developing countries, the creditor and the debtor countries, the national and international commercial banks, the large transnational corporations, and the multilateral financial organizations (e.g. the World Bank, the International Monetary Fund, regional development banks). By reviewing each party's role, resources and margin of freedom of action, it will be possible to bring out more clearly respective responsibilities and propose ethical principles which guide decision-making, alter behaviour patterns, and transform the institutions in view of a better service of humanity. All are called to participate in the building of a more just world, one of whose fruits will be peace. "We see peace", said Pope John Paul II, "as an indivisible fruit of just and honest relations on every level—social, economic, cultural and ethical—of human life on this earth ... To you, business men, to you who are responsible for financial and commercial organizations. I appeal: to examine anew your responsibilities towards all your brothers and sisters."⁴

This fresh consideration of roles will make it possible to avoid the temptation of fatalism or of powerlessness in face of the complexity of the bonds of interdependence and also to create new spaces of freedom—and therefore responsibility—to be assumed and shared.

III.1. RESPONSIBILITIES OF THE INDUSTRIALIZED COUNTRIES

In a world of increased interdependence among nations, an ethic of expanded solidarity will help to transform economic relations (commercial, financial, and monetary) into relations of justice and mutual

⁴ JOHN PAUL II, *Message for the 1986 World Day of Peace*, nn. 4, 7.

service, while, at present, they are often relations based on positions of strength and vested interests.⁵

Due to their greater economic power, the industrialized countries bear a heavier responsibility which they must acknowledge and accept even if the economic crisis has often challenged them with grave problems of reconversion and employment.⁶ The time is over when they can act without regard for the effects of their own policies on other countries. They have to evaluate the positive and negative repercussions of these policies on the other members of the international community and introduce changes if the consequences constitute too much of a burden for other countries and especially the poorest ones. The collective egocentricity of a nation is manifested when it disregards the effects of interdependence or when it does not evaluate such effects and keep them under control. The responsibility for forming public opinion to international openness and to the duties of extended solidarity falls upon social, economic, educational, and religious leaders, and especially upon politicians, who are all too often prone to assign exclusive priority to national interests instead of explaining to their fellow citizens the positive effects of a more equitable international sharing of resources. In his encyclical on "The Development of Peoples" (n. 84) Pope Paul VI had already stated: "Government officials, it is your concern to mobilize your peoples to form a more effective world solidarity, and above all to make them accept the necessary taxes on their luxuries and their wasteful expenditures, in order to bring about development and to save the peace." To speak of sharing, even to propose a certain austerity, will only be heeded if one appeals to the values of brotherhood and solidarity for peace and development.

⁵ Congregation for the Doctrine of the Faith, *Instruction on Christian Freedom and Liberation*, n. 16: "New relationships of inequality and oppression have been established between the nations endowed with power and those without it. The pursuit of one's own interest seems to be the rule for international relations, without the common good of humanity being taken into consideration."

⁶ Cf. *ibid.*, n. 90: "The principle that goods are meant for all, together with the principle of human and supernatural brotherhood, express the responsibilities of the richer countries toward the poorer ones. These responsibilities include solidarity in aiding the developing countries, social justice through a revision in correct terms of commercial relationships between North and South, the promotion of a more human world for all."

In the face of the challenge of developing countries' increasing debt, the responsibility of the industrialized countries applies in particular to the following areas:

1. The debt situation of the developing countries has become even more acute because of the effects of the world economic crisis (drop in the standard of living of the poorest classes, increased unemployment ...) which weigh heavily on the people in those countries. An enduring and sustained recovery in the industrialized countries will help the world economy to pull out of the crisis and help the debtor countries to honour their debts in the medium and long term without overly jeopardizing their own development. The industrialized countries are trying to develop economic policies which will relaunch economic growth in their own best interests and those of their populations. However, they must measure the effects of those policies on developing countries and, if necessary, modify those current rules of international trade which represent an obstacle to a more just distribution of the fruits of that growth. Otherwise, this very growth will further marginalize the poorest countries and increase the inequalities between nations. The application of economic policies which will lead to growth for all, while keeping a lid on inflation, another source of increased inequality, is a difficult yet challenging task. On the part of political, economic, and social leaders, it demands qualities of expertise and impartiality, an openness to the needs of other countries, and imagination in order to find new courses of action.

2. The industrialized countries have to do away with the protectionist measures which hinder exports from the developing countries. This will increase the economic possibilities of those countries, especially if technical know-how is shared as well. The industrialized countries will need to plan a reconversion of their economies with timely buffering of the social effects on their own populations. The current technical and economic competition underway between countries and, above all, between the industrialized ones themselves, is without restraint and is assuming the shape of a ruthless war in no way concerned about the harsh effects on the weaker countries. Ever attentive to their ap-

peals, the Church invites all persons of good will, and especially political and economic leaders, to find the ways and the means for improved international sharing of economic activities and labour.⁷

3. The interest rates charged by industrialized countries are high and make reimbursement very difficult for the debtor countries. A coordination of the industrialized countries' financial and monetary policies will make it possible to bring these rates down to a more reasonable level and avoid erratic fluctuations in exchange rates. The latter often prompt illicit profits on currency speculation and drains in national capital reserves, a new and additional cause of impoverishment for the developing countries.

4. International trade conditions (especially the instability of the price of raw materials) would need to be carefully reanalyzed in mutual agreement with the countries concerned and with the specialized help of the competent international institutions so that justice and international solidarity would prevail where national interests are overly and exclusively dominant.

Adopting measures to relaunch growth, reducing protectionism, lowering interest rates, and assigning a just value to raw materials all seem to be the responsibility of industrialized countries in contributing to a "development in solidarity of mankind."⁸

III.2. RESPONSIBILITIES OF THE DEVELOPING COUNTRIES

The acceptance of international coresponsibility on the part of the developing countries implies an analysis of the domestic causes behind the increase in their overall indebtedness. It also means planning for the necessary adjustment policies to alleviate the weight of their debt, as much as this depends on them, as well as promoting their own development along the lines of the aforementioned encyclical of Pope Paul VI: "World unity, ever more effective, should allow all peoples to become the artisans of their destiny," with the wish that:

⁷ Cf. JOHN PAUL II, Encyclical *Laborem exercens*, September 14, 1981, n. 18.

⁸ Cf. PAUL VI, Encyclical *Populorum progressio*, nn. 56-66.

“may the day dawn when international relations will be marked with the stamp of mutual respect and friendship, of interdependence in collaboration, the betterment of all seen as the responsibility of each individual.”⁹

A detailed examination of the current debt situation will bring out the specific nature of each developing country, both in terms of internal and external causes, as well as the solutions and the outlook for the future. The evident diversity of these situations is due to numerous factors: e.g. more or less abundant and more or less well managed natural resources (energy resources and mines, arable land, climate, ease of communications), the development of human resources, national policy orientations (economy, social affairs, finance, monetary matters). A case by case study would provide for a more equitable evaluation of the core-responsibilities and the solutions adopted, while taking into consideration the bonds of solidarity between all the developing countries, which have every right to consult with one another on a regional and world level.

It would be highly recommendable for all the decision-makers in a given country to take part in an analysis of the situation, especially with respect to the present financial and monetary crisis. In their concern for truth and participation, they will need the civic and moral courage to brief their population on the responsibility which is proper to each individual and each social category in the country. This will serve to build a consensus on the economic adjustment measures to be adopted, on a true distribution of the social efforts to be agreed upon, and on the priorities in the targets to be selected. Especially for the leaders of a country in economic and financial difficulty, it is often tempting to shift full responsibility to other countries, in order to avoid having to explain their own actions, errors, and even abuses, as well as to avoid having to propose any changes which would affect them directly. The denunciation of the injustices of others, be they either committed or tolerated, will fall on deaf ears unless, at the same time, one is willing to explain one's own actions. “It is too easy to throw back on others

⁹ *Ibid.*, n. 65.

responsibility for injustices, if at the same time one does not realize how each one shares in it personally, and how personal conversion is needed first."¹⁰ This applies to the Church as well.¹¹

The line of demarcation between the rich and the poor does not only cut through nations. It also divides social categories and regions in each country. There are rich people in poor countries and poor people in rich countries. Within the same country, there are poorer regions and more prosperous ones. Pope John XXIII had underlined these new aspects of justice back in 1961. "The evolution of historical situations brings out into ever greater relief how the exigencies of justice and equity not only have a bearing on the relations between dependent workmen and contractors or employers, but concern also the relations between different economic sectors and between areas economically more developed and those economically less developed within individual political communities; and, on the world plane, the relations between countries with a different degree of economico-social development".¹²

The various groups in authority in the developing countries must accept having their actions and any responsibilities they may have in their country's indebtedness scrutinized: e.g. negligence in the setting up of suitable structures or abuses in the use of existent ones, tax fraud, corruption, currency speculation, national capital reserve drain,¹³ kick-backs in international contracts... This duty of transparency and truthfulness will make it easier to establish individual responsibilities, to avoid unjustified suspicions, and to propose suitable and necessary re-

¹⁰ PAUL VI, Letter *Octogesima adveniens* to Cardinal Maurice Roy, May 14, 1971, n. 48.

¹¹ Cf. Synod of Bishops, *Justice in the World*, 1971, nn. 42-51.

¹² JOHN XXIII, Encyclical *Mater et Magistra*, chap. III, AAS vol. LIII (1961), p. 431. Cf. Congregation for the Doctrine of the Faith, *Instruction on Christian Freedom and Liberation*: "New relationships of inequality and oppression have been established between the nations endowed with power and those without it" (n. 6). "Whoever possesses technology has power over the earth and men. As a result of this, hitherto unknown forms of inequality have arisen between those who possess technology and those who are simple users of technology" (n. 12).

¹³ The "drain" of national capital reserves towards other countries does not concern the developing countries alone. However, it does entail more serious consequences for the developing countries in debt, especially when the capital drain involves substantial amounts. A moral judgement in these new areas must begin with an indepth analysis before proposing solutions.

forms for institutions as well as for personal behaviour. "The structures established for people's good are of themselves incapable of securing and guaranteeing that good. The corruption which in certain countries affects the leaders and the State bureaucracy, and which destroys all honest social life, is a proof of this. Moral integrity is a necessary condition for the health of society. It is therefore necessary to work simultaneously for the conversion of hearts and for the improvement of structures."¹⁴

The improvement of individual and collective behaviour with respect to financial gains and the institutional reforms¹⁵ will strengthen or reestablish national confidence, as well as that of other countries, in accepting the adjustment measures to be adopted and in cooperating in their effective implementation. For political, economic, and social leaders, it is a moral obligation to put themselves concretely at the service of the common good of their respective countries without pursuing personal gain. They must see their function as a service to the community with a direct concern for an equitable sharing of goods, services, and jobs among all, giving priority to the needs of the poor, and carefully monitoring the repercussions on the poor of the economic and financial measures they deem necessary, in all conscience, to adopt. This quest for social justice in political and economic decisions will be all the more credible and effective to the extent leaders themselves adopt a life style in keeping with the one their countrymen are compelled to accept under the difficult conditions of the country. In this sense, Christian leaders will allow themselves to be challenged by the demands of the Gospel.

In the face of increasing indebtedness and considering the diversity of respective situations, the specific responsibility of the developing countries will apply particularly to the following areas:

¹⁴ Congregation for the Doctrine of the Faith, *Instruction on Christian Freedom and Liberation*, n. 75.

¹⁵ Objective analysis, improved behaviour and institutional reforms relate not only to the authorities in developing countries, but also and in equal degree to those in the industrialized countries in their own domestic activities and in international relations.

1. It is advisable to mobilize all the available national resources, material as well as human, to promote sustained economic growth and assure the country's development.

Economic growth is not an end in itself. It is a necessary means of meeting the basic needs of a population, taking into account demographic growth and the legitimate aspirations for an improved standard of living (e.g. public health, education, culture, consumer goods). The creation of wealth is to be encouraged in order to ensure a broader and more just distribution among all.

The factors inherent in economic growth are numerous, complex, and at times difficult to control and coordinate. The duty of those in positions of responsibility in both the private and the public sectors is to take all of these factors into consideration in their decisions. This implies expertise and a concern for the common good. These factors include the choice of priority sectors, strict selection of capital investments, reduction in public spending (especially expenditures for reasons of prestige and for armaments), more rigorous management of public enterprises, control over inflation, support of national currency, reform of the tax system, sound agrarian reform, initiatives to private enterprise, and the creation of jobs. All of these are areas in which the Church, by recalling the human and ethical dimension, addresses a particular call to Christians to work on concrete solutions.

Improved growth rates will make it possible to meet foreign debt commitments (capital and interest) gradually and in a better way, and to reestablish more balanced and confident relations with other countries. The needs of future generations must also be taken into account. This is a duty of solidarity and justice in their regard.

2. International solidarity, in the case of the developing countries, implies an openness which, if just and balanced, is a good in itself. Pope Paul VI mentioned nationalism among the obstacles to be overcome for the united development of humanity: "Nationalism isolates people from their true good. It would be especially harmful where the weakness of national economies demands rather the pooling of

efforts, of knowledge and of funds, in order to implement programmes of development and to increase commercial and cultural exchange.”¹⁶

Rare indeed is it for a country to dispose of all the resources necessary to pursue its development in isolation and satisfy the needs of its people. A country usually receives capital, technology and equipment from other countries. A careful selection of these imports will avoid increasing indebtedness without hampering development.

Conversely, an immediate and total liberalization of international trade would risk generating competition that would endanger the economies of the developing countries and would oblige them to make overly rapid and destructive adjustments in certain sectors. Equitable rules must be set up in order to eliminate these dangers and to establish better equality of opportunities. “In order that international trade be human and moral, social justice requires that it restore to the participants a certain equality of opportunity. This equality is a long term objective ... Who is there who does not see that such a common effort aimed at increased justice in business relations between peoples would bestow on developing nations positive assistance, the effects of which would be not only immediate but lasting?”¹⁷

International trade today includes technologies, capital and currency. In each area, the same efforts are required: “Create true equality in discussions and negotiations ... establish general norms.”¹⁸

A particular case in point is evident in modern technologies which promote economic growth if they are adapted to a country’s culture and level of development. The nations which invent these technologies have, thanks to these, a capital and power to place at the service of all.¹⁹

Regional cooperation, especially among developing countries, is an expression of solidarity which is also to be promoted in financial and monetary matters, in order to find just solutions to the debt problems.

¹⁶ PAUL VI, Encyclical *Populorum progressio*, n. 62.

¹⁷ *Ibid.*, n. 61.

¹⁸ *Ibid.*

¹⁹ Cf. JOHN PAUL II, Encyclical *Laborem exercens*, nn. 5, 12; Congregation for the Doctrine of the Faith, *Instruction on Christian Freedom and Liberation*, n. 12.

III.3. RESPONSIBILITIES OF CREDITORS WITH RESPECT TO DEBTORS

In emergency situations in which debtor countries are unable to service their foreign debts or even meet their annual interest payments, the various creditors need to define their responsibilities within a framework of solidarity for survival. Those provisions, however, do not nullify the respective rights and responsibilities linking creditors and debtors.

The examination of the internal and external causes behind the debt, its increase, and the amounts to be reimbursed each year by each country will make it possible, in a spirit of dialogue, to determine the responsibilities of the debtor and his respective creditors (States, commercial banks) with a view to finding equitable solutions.

Except when loans have been granted at usurious rates or used to finance projects overpriced through fraudulent complicity—in which case legal proceedings could be initiated to revise the contracts—creditors have rights, acknowledged by the debtors, relative to interest rates, the conditions and schedule of reimbursement. Respect for the contract by both parties sustains the essential trust factor. However, creditors cannot demand contract fulfillment by any and all means, especially if the debtor is in a situation of extreme need.

1. The creditor States have to find reimbursement conditions which are compatible with each debtor State's ability to meet its basic needs. Each country has to be left adequate financial leeway for its own growth, which at the same time will help further reimbursement of its debt.

A decrease in interest rates, the capitalization of payments above a minimum interest rate, a rescheduling of the debt on a longer term basis, national currency payment facilities ... these are all concrete measures to be negotiated with the debtor countries in order to lighten the debt service burden and assist in growth recovery. Creditors and debtors need to reach agreement on the new conditions and terms of payment in a spirit of solidarity, sharing the necessary efforts. In the case of disagreements on the precise ways and means, conciliation or arbitration procedures could be requested and acknowledged by both

parties. An international code of conduct, with norms of ethical value, would be useful as a guideline for negotiations.

The creditor States will need to pay special attention to the poorest countries. In certain cases, they could convert the loans into grants. This debt remission, however, must not undermine the financial, economic, and political credibility of the "less advanced" countries or put a stop to new flows of capital from banks.

The amount of public capital transferred from the industrialized countries (public development aid) must return to the level of commitments agreed upon bilaterally or multilaterally. Creditor States should encourage commercial banks to continue lending to developing countries by adopting fiscal and financial provisions and guarantees against possible risks. Coordinated policies in monetary, financial, and commercial affairs on the part of the creditor States will help to keep the developing countries' balances of payments on an even keel and thereby favour debt repayment.

2. The commercial banks are direct creditors of developing countries (States and enterprises). Their duties towards their depositors are essential and must be fulfilled if confidence is to be maintained. These duties, however, are not their only ones and must be compatible with respect for their debtors whose needs are often more urgent.

Commercial banks have an active role to play in the efforts undertaken by creditor States and international organizations in solving the debt problem: rescheduling of debts, revision of interest rates, relaunching investments in developing countries, financing of projects on the basis of their impact on growth in preference to "safer" projects with more immediate investment returns and those of questionable usefulness (e.g. prestige investments, armaments). This approach undoubtedly goes beyond the traditional function of commercial banks insofar as it invites them to undertake a type of discernment which transcends the ordinary criteria of profitability and security for capital invested in the form of loans. Nonetheless, why would they not assume in that way part of the responsibility in the face of this major challenge of our times: promoting the united development of all peoples and thereby

contributing to international peace? All persons of good will are called to this task, according to their own expertise, professional commitment, and sense of solidarity.

3. Multinational companies are involved in international flows of capital under the form of production-oriented investments and the repatriation of capital (profits and defrayments). Their economic and financial policies therefore have a negative or positive influence on the balance of payments of developing countries (new investments and local reinvestment of profits or repatriation of profits and sale of assets).

While orienting the activities of these corporations in order to involve them in development plans (national investment code), the public authorities in developing countries could also draw up conventions with them which define mutual obligations, especially in the areas of capital flows and taxation.

Multinational companies have extensive economic, financial and technological power. Their business plans go beyond and cut across national boundaries. They must be party to the solutions for alleviating the debt of the developing countries. As economic and financial actors on the international stage, they are called to this coresponsibility and solidarity which is above and beyond their own vested interests.

III.4. RESPONSIBILITY OF MULTILATERAL FINANCIAL ORGANIZATIONS

At the end of the violence and havoc of World War II, the nations of the world joined together to promote peace and international cooperation, to foster the development of peoples, to satisfy mankind's basic requirements (health, food, education, culture) through specialized agencies, and to conduct trade (commerce and industry) on equitable terms. The Church has always encouraged these efforts to construct a more just and more united world.²⁰

Today, international organizations are faced with new and urgent responsibilities: to help solve the debt crisis of the developing countries; to avoid a generalized collapse of the international financial system; to

²⁰ Cf. JOHN PAUL II, *Message to the 40th UN General Assembly*, October 18, 1985, nn. 2-3.

help all peoples, especially those in greatest need, to bring about their own development; to combat the spread of poverty under all its various forms and thereby promote peace by eliminating the threats of conflicts. Among these threats, let us remember, there is "the unpredictable and fluctuating financial situation with its direct impact on countries with large debts struggling to achieve some positive development."²¹

The multilateral financial organizations will fulfill their role if their decisions and actions are taken in a spirit of justice and solidarity at the service of all. Certainly, it is not up to the Church to judge the economic and financial theories behind their analyses and the remedies proposed. In these complex domains, certitudes are relative. As her contribution, the Church recalls the need for mutual understanding as a way to shed more light on realities. She also restates the priority to be granted to people and their needs, above and beyond the constraints and financial mechanisms often advanced as the only imperatives.

Inter-state organizations must take care to respect the dignity and sovereignty of each nation, above all the poorest ones, while remembering that the interdependence of national economies is a fact which can and must become an acknowledged bond of solidarity. Isolation is neither desirable nor possible. "The peoples themselves have the prime responsibility to work for their own development. But they will not bring this about in isolation."²²

In order to handle these new tasks, some reorganization is most assuredly necessary: the adaptation and expansion of their interventions, increased means for action, effective participation of all members in decision-making, contribution to development targets, and priority for the needs of the poorest populations. As early as 1967, Pope Paul VI had expressed hope for this reorganization with a view to "the development of peoples."²³

²¹ JOHN PAUL II, *Message for the 1986 World Day of Peace*, n. 2. Among the suggestions: reduce North-South tensions: "I am thinking of the debts poor nations are carrying, and of a better and more responsible use of funds within 'developing countries'" (*ibid.*, n. 4).

²² PAUL VI, Encyclical *Populorum progressio*, n. 77.

²³ *Ibid.*, n. 64: "We hope that multilateral and international bodies, by means of the reorganization which is required, will discover the ways that will allow peoples still underdeveloped to break through the barriers which seem to enclose them."

These reorganization endeavours will bolster the confidence to which the inter-state organizations have a right but which they must always justify and, at times, regain. The populations more directly affected by the consequences of the debt crisis need visible signs in order to recognize the equity and effectiveness of the solutions adopted. Confidence, which is a necessary element in generating a national consensus in accepting a fair distribution of sacrifices, and thereby assuring the successful outcome of adjustment measures, is not the result of economic measures alone. It is only granted if impartiality and the service of others emerge as the motives behind decisions, as opposed to the interests of one nation or social category. In this latter case, suspicion creeps in, and, at times without sufficient warning, triggers rejection, denunciation, and even violence.

It is up to the member States, especially the ones with preponderant influence in the decision-making process because of their economic power and level of contributions, to support these organizations in an active way, to specify their tasks, to expand their endeavours, and to turn these sites of power into centres of dialogue and cooperation for the international common good.

Each of the multilateral financial organizations—International Monetary Fund (IMF), the World Bank, regional banks—has specific functions, and hence responsibilities in its own right. In order to highlight their inherent character of solidarity and concordance, these bodies will have to acknowledge the need to increase the representation of developing countries and their participation in the major international economic decisions that affect them. It will be the concern of these agencies to coordinate their efforts and policies to respond in a specific and coherent way to the most urgent debt needs with an eye to the future. They will also have to consult with the other international financial agents in order to determine, in dialogue with the debtor countries, the measures to be adopted and the distribution of responsibilities, according to each party's functions and possibilities.

Without going into those details which fall within "the vocation of lay people acting on their own initiative with their fellow country-

men”,²⁴ the Church draws the attention of multilateral financial organizations and those who work in them to a few points for consideration:

— to examine the loan “conditions” set by the IMF openly in a way which is adapted to each developing country; to integrate the human factor in the “increased surveillance” over the implementation of adjustment measures and the results achieved;

— to encourage new capital, public and private, to finance priority projects for developing countries;

— to foster dialogue between creditors and debtors for a rescheduling of debts and a reduction of the sums due in one or even more years if possible;

— to foresee special provisions to cover financial difficulties due to natural catastrophes, excessive variations in the prices of indispensable raw materials (commodities, energy products, mineral resources), and abrupt fluctuations in exchange rates. Because of their unexpectedness, their extent, and financial repercussions, these uncontrolled phenomena disrupt the economic programmes of the developing countries in particular and lead to a state of dangerous and costly international insecurity;

— to prompt a better coordination of the economic and monetary policies of the industrialized countries, encouraging those with the most favourable impact on the developing countries;

— to look into the new problems, current and future, in order to envisage solutions now which can take into account the widely diversified evolution potential of national economies and the future prospects of each country. Such forecasting, difficult and necessary, is a common responsibility in face of future generations and will make it possible to prevent a buildup of serious conflict situations. In a world of rapid and profound changes, “if man lets himself rush ahead without foreseeing in good time the emergence of new social problems, they will become too grave for a peaceful solution to be hoped for;”²⁵

²⁴ Cf. Congregation for the Doctrine of the Faith, *Instruction on Christian Freedom and Liberation*, n. 80.

²⁵ PAUL VI, Letter *Octogesima adveniens* to Cardinal Maurice Roy, May 4, 1971, n. 19.

— to pay close attention to the selection and training of all those who work in multilateral organizations and who take part in situation analysis, and in decisions relative there to, and their subsequent implementation. Collectively and individually, these people bear a great responsibility. There is always the danger of remaining on the level of theoretical, technical, or bureaucratic solutions, while at stake are human lives, the development of peoples, and solidarity among nations. Economic expertise is indispensable, as is sensitivity to other cultures and direct and concrete experience with people and their needs. To give a firm base to these human qualities, a keen sense of the need to promote solidarity and international justice is also important.

FINAL PROPOSAL

In order to deal with the serious challenge of the indebtedness of the developing countries, the Church calls upon all people of good will to broaden their conscience to include these new, urgent and complex international responsibilities, and to mobilize the full range of their possibilities for action in order to identify and implement solutions of solidarity.

In particular, has the time not come for the industrialized countries to draw up a broad plan of cooperation and assistance for the good of the developing countries?

Without drawing a parallel with what was done after World War II to accelerate the reconstruction and economic recovery of countries seriously damaged during that conflict, is it not imperative to start working on a new system of aid from the industrialized countries to the less prosperous ones, in the interests of all and especially because it would mean restoring hope to suffering populations? Such a contribution, which would constitute a commitment of several years, would seem indispensable in order to enable the developing countries to launch and conclude successfully, in cooperation with the industrialized countries and the international organizations, the long-term programmes they need to undertake as soon as possible. May our appeal be heeded before it is too late!