
The Vatican's Stand

Justitia et Pax: 'At the service of the Human Community'

"At the Service of the Human Community: An Ethical Approach to the International Debt Question," was published by the Pontifical Commission Justitia et Pax of the Vatican on Jan. 29. The document is now playing a central role in the movement for Ibero-American debt restructuring and economic integration. The following is an abridged version, with notes omitted.

Presentation

The phenomenon of international indebtedness has sharply increased in the last few years, presenting new challenges to the international community. . . .

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 honor 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 have created an increasingly unfavorable 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 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.

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 "Justitia 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 “*Justitia 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.

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Introduction

Political officials and economists, social and religious leaders, as well as public opinion throughout the world, recognize 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 understanding, 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 at 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 behavior 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 programs 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.

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. The monetary and financial issue therefore commands attention today in an urgent and new way.

2. Accept co-responsibility

Solidarity implies an awareness and acceptance of co-responsibility 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. . . . Co-responsibility concerns the future of countries

and of entire populations, but also the possibilities of international peace based on justice.

3. Establish relations of trust

Co-responsibility will help to create or restore relations based on trust between nations (creditors and debtors) and between the various 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.

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. . . . 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 rehabilitation: 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.

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 or make their debts all the more difficult to service. 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 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.

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. . . .

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. 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.

. . . 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

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.

The peoples themselves have the prime responsibility to work for their own development. But they will not bring this about in isolation.

In order to handle these new tasks, some reorganization is most assuredly necessary: the adaptation and expansion of their interventions, increased means for actions, 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."

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 interest of one nation or social category. 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 endeavors, and to turn these sites of power into centers 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 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 countrymen," 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, and abrupt fluctuations in exchange rates. Because of their unexpectedness, their extent, and financial repercussions, these uncontrolled phenomena disrupt the economic programs of the developing countries in particular;

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

—to look into new problems, current and future, in order to envisage solutions now which take into account the widely diversified evolution potential of national economies and the future prospects of each country. . . .

—to pay close attention to the selection and training of all those who work in multilateral organizations and who take part in situation analysis. . . . 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. . . .

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.

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, 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 programs they need to undertake as soon as possible. May our appeal be heeded before it is too late!