

CANCELING IRAQ'S ODIIOUS DEBT

When Saddam Hussein seized power in July 1979, Iraq possessed \$36 billion in cash reserves and had zero long term debt. Hussein invaded Iran in 1980 and began to divert Iraq's resources to this war and to building up Hussein's internal security apparatus. By 1990, Hussein had compiled \$40 billion in debt. With the imposition of economic sanctions in 1990, Iraq had no ability to repay loans, even if Hussein had desired to do so. By December 2003, the International Monetary Fund estimated that Iraq's debt stood at \$125 billion—including principal and interest.

“Odious debt” is a developing area of international law. This doctrine states that debt is odious if it is incurred for the benefit of a despotic regime rather than for the Common Good (e.g., hospitals, schools, water treatment, etc.); if it strengthens the hand of the despotic regime; if the people of a country have no say in incurring the debt or how it is used; and if the lenders knew the regime was despotic. Each of these conditions clearly existed in the conditions under which money was lent to Hussein's regime and thus the debt ought to be canceled outright as “odious debt”.

Status of Debt Reduction: The Paris Club established the framework for reduction of Iraq's debt. The Paris Club consists of such countries as Canada, the U.S., Scandinavian countries, the Russian Federation, Japan and various countries in western Europe. In December 2004, the Paris Club agreed to cancel outright 30% of Iraq's odious debt. A further 30% reduction would occur once Iraq and the International Monetary Fund (I.M.F.) reached a Joint Stand-by Arrangement (Iraq's Interim Government agreed to the Stand-by Arrangement in December 2005). A final 20% reduction is scheduled after 3 years provided Iraq complies with the terms imposed by the I.M.F.

I.M.F. Economic Conditionalities: I.M.F. imposed economic restructuring plans generally have a harmful impact upon a country's population, while benefiting financial elites in a particular country and globally. Already, Iraq has significantly reduced fuel subsidies—dramatically increasing the price of gasoline, diesel fuel, kerosene, etc. Iraq will be required to monetize the public food distribution system, which provides sustenance for the majority of Iraqis. Iraq is already required to peg the value of the dinar to the value of the dollar, reducing Iraq's ability to modify its fiscal and monetary policies. Iraq is being moved into the initial stages of imposed privatization of its state owned enterprises. By the end of 2006, Iraq will be required to pass new laws greatly expanding the role of the private sector and foreign companies in the oil sector. This privatization may well include privatization of its oil wealth—whether through outright sale of its oil infrastructure or through the establishment of “production sharing agreements” which significantly limit Iraq's ability to regulate the industry. I.M.F. imposed conditionalities typically undermine worker rights.

The Solution: The United States should take the lead in establishing an international arbitration tribunal which would consider debt claims against Iraq. This tribunal would consider claims made against Iraq and determine which claims are “odious debt” and which claims are legitimate claims against Iraq. Iraq would be required to pay the legitimate claims while the odious debts would be canceled outright, with no I.M.F. imposed conditionalities.

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