NEW YORK STATE BILL CAN HELP END THE GLOBAL DEBT CRISIS

In a moment that cries for global solidarity, the New York state legislature has a unique opportunity to pass legislation that would help combat poverty in debt-burdened countries, stabilize the economy, and benefit taxpayers.

The New York Taxpayer and International Debt Crises Protection Act would require private creditors with sovereign debt contracted under New York law to participate in debt relief at the same level as governments.

This act would reduce unsustainable and unpayable debt and benefit millions of people around the world, including taxpayers in the US.

DEBT CRISIS IN AN ALARMING MOMENT

The last three years have brought overlapping crises that have caused the sovereign debts of countries to balloon through no fault of their own, and brought them to the brink of default. COVID-19, the war in Ukraine, climate disasters, inflation, the rise in interest rates, and appreciation of the dollar have spelled disaster for governmental budgets.

Right now, 40 out of 67 low-income countries (and one out of five middle-income countries) are struggling to pay their debt; this means they are compelled to make impossible choices about the basic necessities that sustain people’s health and welfare: healthcare, schools, food, and more. These countries are home to hundreds of millions of poor people.

Debt is drowning their budgets. In 2021, low-income countries spent an average of 27.5 percent of their budgets on interest and debt repayments. This was more than they spent on education, health, and social safety net programs combined.

Instead of meeting people’s basic needs, many debt-burdened countries send large portions of their budgets to lenders—a process that ultimately increases poverty in developing nations and destabilizes the global economy.

PANDEMIC CRISIS: Because of the pandemic’s economic after-shock, 78 percent of the world’s population is projected to be still living under austerity measures by 2025. The pandemic wiped out four years of progress in the eradication of extreme poverty, and progress on other United Nations’ Sustainable Development Goals has slowed, stalled, or reversed.

CLIMATE CRISIS: The debt crisis is intimately related to the climate crisis. Climate mitigation, adaptation, and reparations for loss and damage all require long-term investments in energy, transport, water, agriculture and other infrastructure. Such investments are typically financed by new debt. But it would be foolhardy to lend to countries that are already overindebted. Debt relief, as well as more concessional loans and aid, is critical to meet the climate challenge.

THE SHIFT FROM PUBLIC TO PRIVATE CREDITORS SPELLS DISASTER

In the past, taxpayer-funded public creditors like the US have alleviated debts with minimal help from commercial banks, hedge funds, and other private lenders. But that has shifted in recent years. Currently, over half of the debt owed by low- and middle-income countries isn’t owed to governments, but to corporations (banks or hedge funds).

Some of it is owed to brutish investors known as “vulture funds.” These funds swoop in to buy up the distressed debt owed by poor countries on the cheap. They refuse any negotiation to restructure the debt—knowing that if they hold out long enough, they can use the New York state court system to be paid back at the full face-value of the debt, thereby making a huge profit.
The money poor countries are able to save by restructuring the debt they owe to governments (taxpayer money) ends up paying off the vulture funds instead of paying for food, schools, or healthcare.

In other words, taxpayers are paying to set up billionaires on their yachts.

THE POWER OF NEW YORK TO MAKE CHANGE

New York is home to the world’s principal financial center. Because of the depth of its financial market, the strength of its rule of law, and its rich jurisprudence, roughly half of low- and middle-income countries’ sovereign debt that is owed to private creditors is governed by New York laws.

New York’s legislature therefore can and should provide a critical missing piece in the international financial architecture: a mechanism to force private creditors to participate in sovereign debt restructurings.

The new bill says that whenever the US government agrees to a multilateral deal to provide debt relief to poor nations, those deals apply to all debt regulated by New York state. It would make a HUGE difference and will mean some of the poorest places in the world won’t have to close hospitals or schools. Lives will be saved.

IMMIGRANT WORKERS AND REMITTANCES: A LIFELINE TO THE WORLD

One reliable (though insufficient) lifeline for over-indebted countries has proved to be remittances. New York State is home to one of the most diverse collection of diasporas in the world.

Many New Yorkers already provide vital relief through a cut of their pay checks that they regularly send to their relatives abroad. These remittances can account for a quarter or even half of some low-income countries’ Gross Domestic Product. New Yorkers have a stake in their hard-earned dollars staying in poor countries rather than flowing back to hedge funds as debt repayments.

The United States government is a strong supporter of international sovereign debt relief efforts. It is indeed in our national interest. We have seen in Sri Lanka the social unrest that a sovereign default can generate. Such instability in other countries teetering on the brink of bankruptcy (such as Pakistan, Egypt, or Nigeria) is a threat to our national security.

AN EQUITABLE SOLUTION

The international community has historically set up several mechanisms to deal with sovereign defaults. The latest initiative, called the Common Framework for Debt Treatments, promises debt relief to 73 low- or middle-income countries. The amount of relief is agreed among official creditors (i.e., rich countries’ governments) based on a debt sustainability analysis jointly produced by the World Bank and International Monetary Fund.

The debtors are then expected to seek the same proportional level of relief from their private creditors—but the threat of lawsuits by the latter is a major reason why only four of the potential beneficiary countries have applied to take advantage of the initiative.

The New York Taxpayer and International Debt Crises Act thus levels the playing field between official and private creditors, ensuring that the latter also pay for the relief that low- and middle-income countries desperately need.

WHY IT MATTERS FOR INEQUALITY

When private creditors demand full repayment on loans to low-income countries, it results in increased poverty and pain in those countries; huge rewards for corporations and the ultrawealthy; a burden on US taxpayers; and destabilization of democracy. Inequality grows, poverty increases, and working families in the US and around the world are threatened.

FIGHTING INEQUALITY TO BUILD A BETTER WORLD

Oxfam believes that poverty is a policy choice, and that the ultrawealthy and giant corporations have hijacked our systems to benefit a select few. We are working to redress the balance of power, putting it back in the hands of working families in the US and around the world.