Refuge from Debt
HOW THE GLOBAL DEBT CRISIS FUELS FORCED MIGRATION TO NEW YORK

Background

The countries where recent asylum-seekers to New York originate are facing a crushing debt burden that is fueled by New York state’s outdated governance of sovereign debt markets. New York has an opportunity to modernize its laws so indebted countries can better care for their own citizens.

Intro

The top 10 countries where recent asylum-seekers to New York City originate pay a staggering $82 billion a year in public debt and interest payments to foreign creditors, part of a historic global debt crisis that is shaking economic stability. At least 76% of recent asylum-seekers in New York come from countries that are in debt crisis or are at risk of default. As New York state works to deliver humanitarian care to an increased number of asylum-seekers in need of temporary housing, food, and other services, it must address its own role in fueling the global debt crisis that has destabilized poor countries and pushed people to flee their homes to seek refuge elsewhere.

Working New Yorkers are already enduring hardship and economic strain as they voluntarily send an estimated $11.7 billion each year in financial support to family members in low- and middle-income countries. These remittances are a huge source of economic activity in many poor countries facing debt, and a lifeline for their budgets. But the impact of that financial support is dwarfed by the amount of money those same countries must send back to creditors governed by New York laws each year. For every $1 New Yorkers send to their families around the world each year, countries are paying over $4 in interest payments alone to bondholders governed under New York laws.

New York lawmakers have a golden opportunity to help address one of the root causes of forced migration: debt. Proposed legislation to reform New York’s governance of sovereign debt markets can help relieve the financial and political pressures on New York communities as they support the humanitarian needs of recent asylum-seekers. These long overdue reforms can protect New York taxpayers’ interests, help stabilize the debt market, and improve financial security in the home countries of asylum-seekers.
The Global Debt Crisis
All countries and governments rely on loans to cover the cost of investments and public services. The last four years have brought overlapping crises that have caused the sovereign debts of low-income countries to balloon, through no fault of their own, bringing many countries 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 as interest payments have skyrocketed.

Right now, 38 out of 67 low-income countries and about 20 middle-income countries are facing debt distress; this means governments are forced to make impossible choices between paying their debts or paying for 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 whose lives and livelihoods rely on these services.

In 2023, low- and middle-income countries spent an average of 29% of their budgets on interest and debt repayments. This was as much as 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.

In response to these fiscal pressures, many countries have adopted austerity measures that punish working people. The pandemic wiped out four years of progress toward the eradication of extreme poverty, and progress on other United Nations Sustainable Development Goals has slowed, stalled, or reversed.

Taxpayer-funded public creditors like the U.S. government are working to alleviate debts through global agreements to restructure loans and bring them back to sustainable levels. But currently, over half of the external public debt owed by low- and middle-income countries isn’t owed to governments, but to corporations such as 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 abuse New York state laws that enable them to get paid back at the full face value of the loan.

The international community has set up several patchwork 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 level of relief from their private creditors—but there is nothing to require private creditors to bargain in good faith or accept comparable terms, and the threat of lawsuits in New York courts by private creditors is a major reason why only four of the potential beneficiary countries have applied to take advantage of the initiative.

Private holdouts are making it harder for poor countries to negotiate the restructuring of their debts. And when private creditors hold out, the money that poor countries save by restructuring the debt they owe to governments (taxpayer money) ends up paying off those holdouts instead of paying for food, schools, or healthcare. In other words, taxpayers are bailing out the richest and most privileged people in the world.

For years, leaders of global financial institutions and the U.S. government have called for reforms to the governance of sovereign debt to make it easier to restructure debts when countries face distress.
“Implementation of the Common Framework must improve so that borrowers in debt distress can receive predictable, timely relief to restore debt sustainability. I urge all official bilateral and private creditors to work together to improve the process.” – U.S. Treasury Secretary Janet Yellen, October 2023

“Under the current system...each country, no matter how poor, may have to fight it out with each creditor. Creditors are usually better financed with the highest paid lawyers representing them, often in US and UK courts that make debt restructurings difficult. It is surely possible that these countries—two of the biggest contributors to development—can do more to reconcile their public policies toward the poorest countries and their laws protecting the rights of creditors to demand repayments from these countries.” – Former World Bank Group President David Malpass, October 2020

“We also are pressing for some of the changes, legal changes that need to happen in [New] York, in London, to close loopholes for vulture funds and others to prevent debt resolution.” - IMF Managing Director Kristalina Georgieva, April 2022

But time and again, these reforms have been blocked, stalled, or watered down.

**New York’s Role**

New York is 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 international sovereign debt that is owed to private creditors is governed by New York laws.¹

But unlike debt owed by corporations or individuals, there is no formal bankruptcy process in place for indebted countries that are unable to pay back their loans. The current system relies on ad-hoc, voluntary negotiations between creditors and debtors. Countries must figure out how to renegotiate their loans with dozens of creditors, some of whom are anonymous entities cloaked in secrecy behind shell companies. It is the wild west.

For several years in a row, a growing list of New York lawmakers have proposed modest reforms to the way New York governs sovereign debts. As the link between debt and migration has become clearer, support for these initiatives has grown.

The Sovereign Debt Stability Act, the most comprehensive bill introduced in the legislature, would enable indebted countries to undergo a process similar to filing for bankruptcy, offering a plan to restructure their debts comprehensively with oversight from an independent monitor appointed by New York state. It also updates New York’s laws to protect New York taxpayers by making it harder for holdout creditors and vulture funds to threaten lawsuits that seek larger payouts than official creditors.

When government creditors agree to restructure debts for distressed countries, taxpayer funds cover the cost of debt relief. When holdout creditors refuse restructuring agreements and demand full payment, they are being paid back with taxpayer dollars. The Sovereign Debt Stability Act ensures that holdout creditors that sue in New York courts can only recover up to the amount that government creditors receive in their restructuring agreements, which will stop vultures from using New York’s outdated laws to secure bailouts funded by New York and broader U.S. taxpayers.

**The Melting Pot**

It has been estimated that close to 40% of all current U.S. citizens can trace at least one of their ancestors to Ellis Island. Over 3 million New York City residents are immigrants, comprising about 40% of the city’s population. The Comptroller of New York City has shown that immigrants to New York, including recent asylum-seekers, are a major economic boon to the city, state, and U.S. economy:
• Immigrant New Yorkers are more likely to be employed, are more likely to create jobs by starting a business, and contribute billions of dollars to New York’s economy in spending power and tax revenue.
• In 2021, immigrant New Yorkers paid $61 billion dollars in taxes and constituted $138 billion dollars in spending power.
• Conservative estimates have found that a 10% reduction in asylum-seekers in one year would be a $8.9 billion loss to the U.S. economy and over $1.5 billion in lost tax revenue over five years.

In April of 2022, in what POLITICO described as “a naked political ploy,” Texas Governor Greg Abbot set out to create political controversy in Democratic-controlled cities and states, spending hundreds of millions of taxpayer dollars to transport recently arrived asylum-seekers from around the world to far-flung communities across the country. His plan worked and a political and tabloid media circus ensued as New York leaders struggled to sell their response plans.

It must be said, the “migration crisis” is a red herring. Migration is a solution to a crisis when people’s lives are at risk and have no choice but to flee to safety. Seeking asylum is legal and protected under U.S. and international law, and welcoming asylum-seekers is ultimately in the economic interests of communities where people seek resettlement. Communities can and should welcome asylum-seekers with care and respect.

But politics are politics. In the summer of 2023, New York City Mayor Eric Adams announced billions of dollars in budget cuts for the city, blaming the increased cost of caring for asylum-seekers. City, state, and federal lawmakers, facing pressure from voters to address the issue, have jockeyed over the appropriate policy response and who should cover the costs.

While there is little agreement on the appropriate response, politicians, activists, and experts at all levels have all pushed in different ways for action to address the drivers of forced migration. While divergent in approach, it is no wonder that both the Biden and Trump administrations released immigration plans claiming to address the “root causes” of the issue.

Debt and the Roots of Forced Migration
Forced migration is a complex issue with myriad causes. Violence, corruption, impunity, climate change-fueled disasters, wars, earthquakes. There are many overlapping forces that drive families to uproot their lives and make dangerous journeys to countries and communities that may or may not welcome them with open arms.

But it is underappreciated how large a role debt plays in exacerbating these dynamics. Debt works as a force multiplier, stripping countries and governments of the resources necessary to relieve pressure on families to flee.

In recent years, debt crises have contributed to major political upheaval and unrest in multiple countries. Violence and protest have erupted as governments struggle to simultaneously pay back loans and meet their citizens’ needs. Many of the countries where asylum-seekers originate have experienced democratic decline that is exacerbated by debt pressures.

Climate-fueled disasters are increasingly driving displacement, forcing an estimated 20 million people a year from their homes last decade. In 2022, 84% of refugees and asylum-seekers fled from countries highly vulnerable to climate change, up from only 61% in 2010. Debt is sapping climate-vulnerable
countries of the resources to build resilience to climate threats and to take action to address the climate emergency.

Moreover, every “solution” that could plausibly improve lives in countries where migrants originate—be it security, infrastructure, education, health care, or emergency preparedness—requires some form of investment. This investment is all but impossible if countries are already drowning in debt they cannot repay.

And that is exactly what is happening in countries where asylum-seekers to New York are coming from. In the summer of 2023, New York City Mayor Eric Adams projected that the city would need to spend roughly $4 billion per year over three years to care for asylum-seekers. By comparison, the top 10 countries where new asylum-seekers came from are paying over $82 billion each year in debt payments, with over $9 billion annually in interest payments made to private creditors governed under New York laws alone. Around 76% of these recent asylum-seekers in New York come from countries that are either facing serious debt crises, are already in default, or have been rated as at risk of default by credit ratings agencies.

NYC’s Annual Cost of Caring for Asylum-seekers vs. Annual Cost of Debt for Top 10 Countries of Origin of Recent Asylum-seekers

Reforms to New York laws that enable creditors to reduce this crushing debt burden would not cost New York taxpayers a dime and can help countries invest at home to reduce the pressure on their citizens to flee.

Already, New York taxpayers are spending their own scarce resources to help family members living in debt distressed countries. In 2021, working New Yorkers voluntarily sent $11.7 billion, often in small increments out of each paycheck, to relatives and friends in their home countries. These remittances are a lifeline to poor countries. They can account for up to half of some low-income countries’ Gross Domestic Product.
When family members abroad spend these funds, they also pay local taxes that should help fund schools, hospitals, and other core services that can improve their countries and communities. But because these countries must spend so much of their budget just repaying debts, they end up stuck in a cycle of poverty and underinvestment—robbing Peter to pay Paul. The annual interest payments all low- and middle-income countries’ governments owe to private creditors governed under New York law is a staggering $46.6 billion. For every $1 New Yorkers send to family members abroad, those same countries pay $4 in interest payments to private creditors governed under New York’s laws.\textsuperscript{iv}

**Annual Remittances from New Yorkers vs. Annual Interest Payments by All Countries for Private Debt Governed Under New York State Laws**

![Bar chart showing annual payments](image)

This has the perverse effect of rerouting the hard-earned funds working New Yorkers send their families back into the pockets of hedge funds, investors, and vulture funds. Working families are not breaking their backs and depleting their savings to prop up already rich investors, but this is exactly the outcome of our current system.

Moreover, New York taxpayers already contribute to debt relief in poor countries when the U.S. government agrees to reduce or restructure debts owed to the U.S. Treasury. But rather than using these funds to pay for essential services that improve the lives of their citizens and reduce the pressure to migrate, too often funds must be redirected to cover debts owed to private creditors that have held out or refused to restructure. Some of these creditors use New York’s court system to enable their holdout strategies. For vulture funds, their entire business model is built on New York’s outdated laws.

**Conclusion and Recommendations**

It is rare to see a case where the interests of New York residents and indebted countries are so clearly aligned, and New York’s legislators actually have the authority and the mandate to act. The Sovereign Debt Stability Act (S5542/A2970) is an opportunity for the New York Legislature and Governor Hochul to address New York’s direct role in fueling economic instability around the world, and the forced migration that
results, without having to sacrifice the interests of New York voters. That's why world leaders, religious institutions, unions, humanitarian and public health organizations, and immigrant communities across the state have urged legislators to pass the Sovereign Debt Stability Act. Legislators should heed these calls.

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External debt service [2021 $m] $82,231 [Oxfam estimates based on World Bank data]

Interest payments to bondholders governed by NY law [2021 $m] $9,092 [Oxfam estimates based on World Bank data]

*107,300 asylum-seekers arrived in NY from Spring 2022 to July 30, 2023 of which 62% are from countries that defaulted on their debt in the past few years - Venezuela 41%, Ecuador 18%, Russia 3%. Another 14% are from countries characterized as “below investment grade” [BB credit rating or lower] which means credit ratings agencies have flagged them as at risk of default - Colombia 13% and Honduras 1%. Sources: [https://www.worldgovernmentbonds.com/credit-rating](https://www.worldgovernmentbonds.com/credit-rating); [https://tradingeconomics.com/honduras/rating](https://tradingeconomics.com/honduras/rating)*

Remittances sent by New Yorkers to low and middle-income countries excluding China and India [which are considered creditor countries] [2021 $m] $11,677. Oxfam’s estimates based on: Census Bureau data for number of foreign-born population by state, and World Bank’s data on remittances and debt payments. The estimate assumes that foreign-born New Yorkers of each country of origin send on average the same amount of remittances as US foreign-born residents of the same origin country.

*xii [https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS](https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS)*

Interest payments to bondholders governed by NY law [2021 $m] by all countries $46,570

Remittances sent by New Yorkers to all debtor countries [2021 $m] $11,677. Source: Oxfam’s estimate based on Census Bureau data for foreign-born population by state and World Bank data on remittances. The estimate assumes that foreign-born New Yorkers of each country of origin send on average the same amount of remittances as US foreign-born residents of the same origin country.