As stated earlier, this is very different from the typical view of economic development that is taught in the typical economics class of an evangelical college. For the last three decades, many Christians have taken a quasi-Leninist approach to the Third World—western capital is responsible for the poverty of other nations. For example, Sider (1977) writes

But what would happen if large numbers of North Americans began to consume less? Would not the economy stagnate and millions lose their jobs? . . . Significantly reduced consumption of energy (fewer cars and air conditioners, for example) would not necessarily mean widespread unemployment. Certainly there would be fewer jobs in heavy industry. But more jobs could be created in the arts, in recreation and in social services such as education and health care. . . . We might have to reduce the length of the workweek for everyone. But these things are all possible if enough people in affluent lands come to see that the God of the poor demands an end to hunger, malnutrition and starvation in the midst of plenty (p. 238).

From his later writings, one can surmise that Sider has progressed somewhat in his thinking from such naiveté, that de-industrialization would mean that just as much food is produced as before, that all that extra food would be easily shipped to the Third World, and that such an economic move would lead to greater leisure time for all. However, even his most recent work (1999) demonstrates that he has only a partial understanding of what creates wealth, and he is still nearly as hostile to private property rights as he was in the first edition of Rich Christians.

I believe that de Soto has something to say to Christians who do believe that private property is Biblical, and that capitalism is not an evil system created by economists and their greedy, villainous allies with handlebar moustaches and wearing long, black capes. He certainly deserves a hearing in Christian circles.

However, I also realize that numerous evangelicals in academe have made a career of blaming capitalism for all social ills. They are not likely to change their tune, even after reading this book. But those folks who are serious about changing the lives of the poor everywhere will find much to like in The Mystery of Capital.

References


William B. Eerdmans Publishing Co.


International Debt Relief: A Moral and Economic Challenge


Reviewed by William P. Jordan, Cornell University.

This brief analysis of the highly visible and politically charged debate around debt relief adequately addresses several of the topic’s key issues from both economic and moral perspectives. It leaves out some fundamental facets of debt relief issues, somewhat conveniently, to affirm an obviously strong orientation in support of foreign direct investment.

The book’s introduction includes a goal that most readers can agree upon: “The goal of any debt relief policy must be the real and sustainable improvement of those most in need.” The authors then set out to explain basic economic and accounting terminology to allow understanding by the non-economists or business accountants amongst their intended audience. Concepts such as balance of payments accounts, current account, capital account, net export of goods and assets, capital flows and direct and portfolio investment are generally adequately defined. Foreign direct investment is singled out as “mutually beneficial to the foreign corporation and the host country.” It is also identified as “the most coveted by countries.”

The authors proceed to critique portfolio investment as the form of capital flow that typically causes external debt problems for developing countries. Such equity flows are deemed especially problematic when domestic governments use them to subsidize “state run enterprises or to support other pet projects” (thus implying that all state run enterprises are pet projects of the government). The authors confuse portfolio investments, which are equity flows such as foreign mutual funds’ investments through local stock markets or securitized debt instruments in domestic corporations, with lending, which actually appears in a completely different place in the balance of payments. This confusing oversimplification seems to be intended to create an easy explanation that foreign direct investment is good, while any other type of investment is bad, and has contributed to the present debt crisis.
Loaning in U.S. dollars to countries with far weaker economies and currencies is accurately identified as a problem. The authors attempt to explain the complex dynamics of domestic currency devaluation, which increases the amounts owed on foreign debts and creates large capital outflows. The major components of these complex dynamics are well summarized.

I begin to disagree with Flanders, Quinlivan and Therrien when they assert that the current crisis in international debt is caused by two factors—non-performing loans and poor governance. They continue, “The international debt crisis, moreover, demonstrates that foreign direct investment has positive effects on economic growth, while portfolio transactions have proven disastrous to economic development.” This devotion to foreign direct investment seems to be the main objective of the book. To assert that foreign direct investment is the solution to debt and development problems in the poorest, most highly indebted countries and that poor governance and nonperforming loans are the two factors that have caused the current crisis seems a tremendously and somewhat inaccurate oversimplification.

In fact, in the most highly indebted poor countries, with few exceptions, private sector lending and foreign direct investment have fallen notoriously short in attempting to meet development and economic growth needs. In this context, it has been the international financial institutions and bilateral official loans that have made up the large majority of investment loans in the glaring absence of private investment.

Towards the end of the document one conclusion reads, the only true long-term solution for external debt problems is to disengage governments and international government-backed agencies from the loan process… Thus, in general, the private sector ought to be relied upon to provide long term loans to developing countries.

Many of those who have opposed the structural adjustment programs (SAPs) which have been integral to international financial institutions’ (IFIs) loans hold a much different opinion on this topic. They tend to critique a loan process which has led to devaluation, greater indebtedness, followed by calls for privatizations by the IFI’s structural adjustment recommendations, whereby foreign direct investment can come in to purchase the “inefficiently run state enterprises” at bargain basement prices because the currency is devalued and the governments are so strapped for international capital that they have little alternative but to sell at low prices. Structural Adjustment Program opponents blame this cycle, combined with price volatility for vulnerable export commodities which trade liberalization has promoted, as the greater contributors to failed loan repayments. Corruption and poor governance certainly contribute to the problem, but are not the only factors.

The authors identify corruption, political motivation and poor governance as factors contributing to the debt crisis. I found myself agreeing with many (though not all) points in this section, yet also feel that the authors overstate their case in some instances. For example, not all portfolio lending has “resulted in the construction of numerous palatial residences owned by despots governing authoritarian regimes.”

I agree with the authors when they relay that a large portion of the current debt is attributable to loans issued during the Cold War. They accurately critique the political purposes which motivated these loans and the lack of economic responsibility that went into their issuance. But when they assert that “the politics of the Cold War have steadily given way to the politics of population control,” I believe they are missing an important point. Just as they praise the president of the World Bank, James Wolfensohn, for stressing reductions in political corruption as a condition for future loans, I feel they should acknowledge that the debt forgiveness efforts have stressed criteria of poverty alleviation programs and absence of armed conflict that were pervasive in that Cold War era. They do cite such conditionality when summarizing proposals for debt relief later in the book, but should include this perspective earlier, when initiating their critique of Cold War militarism’s negative effects on the debt crisis.

Flanders, Quinlivan and Therrien provide the context for explaining Catholic Church perspectives on the debt issues which are outlined in the first half of the book. I think their recounting of the Church’s engagement on the issue of debt relief will be educational for relative newcomers to these topics and helpful even to those more familiar with the issue in the way that they cite particular Church documents and leaders’ positions. They affirm the leadership that the Church has asserted in calling for debt relief, while acknowledging widespread consensus on debt relief by citing Harvard professor Jeffrey Sachs’s position, as well as that of Bush economic advisor Lawrence Lindsey. Propositions put forward by the G-7, IMF, World Bank and the Jubilee 2000 Coalition are briefly summarized and compared. In general, they are supportive of the conditions which have been promoted within debt relief negotiations, though they question whether these conditions go far enough in the direction of trade liberalization. They also warn of the problems of unconditional debt forgiveness, primarily the danger of moral hazard, when debtors are unconcerned whether they default on their loans or not.

I agree wholeheartedly with the authors when they begin concluding remarks by citing American bishops and the Pope recognizing that debt forgiveness must be viewed as part of a larger program. They cite the Pope, Debt relief is, of course, only one aspect of the vaster task of fighting poverty and of ensuring that the citizens of the poorest countries can have a fuller share at the banquet of life. Debt relief programs
must be accompanied by the introduction of sound economic policies and good governance.¹

The authors agree with the Pope when they conclude that debt relief needs to be seen as one facet of a broader process of social and economic reform that has, as its end, the betterment of the poor and the progress of developing nations. We should all be able to agree with this point.

But I am disappointed and disagree when they follow this conclusion with the assertion that

The question that remains to be answered is whether governments and international lending agencies can cancel non-performing external debts for the poorest countries while simultaneously removing themselves from the long term loaning business altogether.

The question is a reiteration of their overconfidence that foreign direct investment is the primary positive alternative to these governmental and international lending agencies. I acknowledge the need and desirability of foreign direct investment within mixed national economies, but doubt such investments will finance the structural and social problems of education, health, rural roads, and other vital components required for true development.

In sum, this book has some good elements, such as references to relevant Church documents on debt forgiveness that readers will find useful, but the authors have compiled simplified explanations in favor of foreign direct investment as the primary solution to the debt crisis that do not do justice to a much more complex reality. This reality will require diverse investment instruments, where foreign direct investment will be one of several components in an overall development strategy that can be initiated by prudent debt forgiveness.

Endnote

¹ Pope’s address to Jubilee 2000 Debt Campaign.