

CONGRESSWOMAN MAXINE WATERS STATEMENT

FOR THE JUBILEE USA/AMERICAN JEWISH WORLD SERVICE CONGRESSIONAL BRIEFING ON RESPONSIBLE LENDING AND BORROWING AND THE IMPACT OF HOLDOUT CREDITORS ON FUTURE SOVEREIGN DEBT RESTRUCTURING EFFORTS

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I very much regret that I couldn't be here today for this important discussion on an issue that is now back at the center of the economic policy debate. I would like to welcome everyone who has come today, and I would like to thank Jubilee USA and the American Jewish World Service for sponsoring this event -- and for their continued leadership and advocacy on behalf of poor and developing countries, particularly on the issue of debt relief and responsible lending and borrowing.

As we know, sovereign debt crises, which occur when countries are unable to pay their debts, have been a major source of the problems faced by developing countries in achieving sustained growth and development at different times since the 1980s. Moreover, sovereign debt problems are no longer viewed as an affliction unique to emerging market countries. The recent debt crisis in Greece almost led to the collapse of the Euro, which could have had a significantly destabilizing effect on the stability of the global financial system.

The costs of these crises go beyond those imposed on borrowers and lenders. Debt crises impose large costs on society as well, including long periods of lost income and jobs, increased poverty, and, in some cases, worsening income inequality.

Renewed calls for a global sovereign bankruptcy regime are motivated partly by events in Europe, but also by difficulties in restructuring stubbornly high debt levels in other parts of the world, such as the Caribbean Sea Basin, and by the recent unexpected legal victories of vulture funds who saw Argentina's travails as an opportunity to make huge profits at the expense of the Argentine people.

The recent court rulings allowing vulture funds to interfere with Argentina's ability to make payments to creditors that had accepted a debt restructuring have caused widespread concern. The World Bank and the IMF have warned that this will encourage holdouts and make it easier for them to block future sovereign debt work-outs, which could pose a very real threat to global financial stability.

In many countries, bankruptcy laws allow firms and individuals faced with overwhelming debt to have a fresh start. I believe it is equally important for countries faced with overwhelming debt to have a fresh start as well. The time has come for the world to design a formal, more efficient system for managing the restructuring of sovereign debt.

For the same reason that governments adopt domestic bankruptcy legislation and do not rely solely on voluntary processes for resolving individual and corporate bankruptcies, an efficient global sovereign debt work-out system requires something more than a moral appeal to cooperation.

One of the most obvious remedies being discussed is that of collective action clauses, which allow a super-majority of creditors to force holdouts to accept a restructuring. Yet, it would be wrong to rely solely on such clauses. First, they only apply to new bond issuances. While it is possible to retrofit such clauses to bonds written under domestic jurisdiction – as Greece did in 2012 -- this option is not available for those issued under foreign law. Second, these clauses do not cover other debt instruments, such as bank loans or trade credits.

This is why I favor the establishment of a formal, institutionalized, and politically recognized mechanism for restructuring the debt of bankrupt sovereigns, which would address all forms of debt owed by sovereign debtors: private, bilateral and multilateral. It would extend legal protections to both the sovereigns and creditors involved.

An international sovereign debt restructuring mechanism could allow for the orderly and swift resolution of debt crises in ways that would not only make crises less costly but would also encourage sovereign debtors and creditors to act more responsibly in normal times.

There are some core principles that I think should underlie such a mechanism. First, odious debt should be written off. This would include, for example, the kind of debt that the Congo incurred as a result of Mobutu's borrowing, or that of Ethiopia, which received loans that Mengistu used to buy arms.

Second, when loans were made with advice from international lenders -- advice that was wrong and led to projects that were poorly designed – I believe those international lenders should bear some

of the risk for the bad lending. Making lenders, including the IMF and the World Bank, bear the consequences of their actions, including their advice, would provide incentives for improving the quality of advice and more care in lending.

Finally, a determination should be made in advance that a government's critical obligations to its citizens should be protected from any austerity measures. Such obligations include, for example, retirement payments made by a government to its citizens, as well as health services and education.

In closing, any such mechanism will have to be comprehensive in order to be effective. It will involve considerable change and face formidable difficulties in generating political will. The process of building the political consensus to achieve this goal will be challenging and will take time. I applaud the contribution that today's discussion makes to that process and to these important and ongoing efforts.