



We need a world bankruptcy court to ease the pain of countries such as Argentina — and their creditors, says Finance Minister **PAUL MARTIN**

When G7 finance ministers and central bank governors gather for their meetings, it's often very difficult to understand just what is being accomplished. It is technical. It is sometimes quite sterile. It is almost always complex. It often feels far removed from the reality of our daily lives. I don't blame people for watching the news coverage of our meetings and wondering, "Why should I care?"

And then something happens to put these meetings into perspective. Something like the television images we saw coming out of Argentina. Pictures of food riots, of lines outside of bank buildings. Images of a financial collapse.

In simple terms, the Argentine government has defaulted on the country's foreign debt. This has led to financial chaos, resulting in enormous social instability. Argentine authorities face a massive challenge: They must win the support of Argentina's citizens and the confidence of international investors. This will require making very tough decisions in response to very complex problems often seemingly at odds with one another.

Think of it: With 145 separate international bond issues, and thousands of different creditors with disparate interests, how is Argentina going to work with its lenders to restructure its foreign debt — a debt it simply can no longer pay?

Yet this is what it must do. Each day that Argentina is in default, more people suffer. Thousands lose jobs. Thousands more see opportunities vanish and futures fade. Middle-class Argentines have fallen into poverty. Poor Argentines have slipped into even more desperate straits.

Recently, at a meeting in Washington of G7 finance ministers and central bank governors, this was the problem before us: how to reduce the economic, financial and social costs of international financial crises. We agreed on an action plan that provides greater clarity on the roles of all parties — debtors, private creditors, and official lenders — to prevent and resolve financial crises.

This is, by and large, the plan that Canada has advocated for the past four years — a framework for the resolution of financial crises that reduces social fallout. With G7 agreement on the key elements of our crises prevention and resolution agenda, the prospects for real progress have never been better. What have we done? Essentially we have taken a step toward establishing "the rules of the game." The model is a framework similar to the one we use for domestic bankruptcy: When a company or individual is in trouble, there are predictable rules and expectations of how financial crises will be handled, predictable for borrowers and lenders alike.

Establishing a structure analogous to an international bankruptcy court is the ultimate answer, and we must work toward it. Meanwhile, establishing fairness and predictability for countries facing debt crises is not beyond our reach.

A key element of the action plan encourages the use of clauses in bond contracts that make it easier to renegotiate countries' debts when they just cannot pay them any more. These clauses would be in debt contracts when a loan is made, so using them in the event of a crisis is completely consistent with the original agreement.

Naturally, some developing-country borrowers are reluctant to put clauses in their debt contracts that even hint that some day they might not be able to repay

their loans, or that single them out as being a different category of borrower from wealthier countries.

That is why we have put a high priority on making these sorts of clauses a standard feature of borrowing by rich and poor countries alike, so that no one is stigmatized. Canada and the United Kingdom have led this effort, putting clauses in our own foreign-currency debt two years ago to help pave the way for their wider use by emerging markets. With the G7's endorsement of these clauses, we hope others will follow our example.

Of course, there is no reason for borrowers and creditors to come to the table to negotiate if both believe that the international community stands ready to bail them out with billions of dollars in assistance. That's why another key part of the action plan is a clear, credible limit on how much money the official sector can provide, so that debt workouts, rather than international bailouts, become the order of the day.

Finally, the action plan recognizes that one of the greatest enemies of creditors and debtors in a financial crisis is a panicked "rush for the exits." With billions of dollars at stake, the temptation for creditors and debtors to panic is enormous.

A temporary "breathing space" from debt-servicing obligations that allows the debtor to implement needed policy changes to correct the payments problems can help. Nearly four years ago, Canada proposed an emergency standstill clause to provide for such a "breathing space." Of course, the debtor will also be

expected to sit down with creditors to negotiate in good faith on a sustainable debt-servicing plan. The action plan represents a G7 agreement on this important change in how debt crises are managed.

All would agree that the best crisis is the one that never happens — so efforts to prevent crises, through the provision of timely, reliable, understandable economic information and policy advice, are another critical component of the G7 action plan.

Some may say these measures will discourage private capital flows to emerging markets. I disagree. Domestic bankruptcy laws, such as Canada's Companies Creditors Arrangement Act, or the U.S. Chapter 11, don't discourage domestic investment, risky or otherwise — quite the contrary. Remember, bankruptcy laws provide the rules of the game for debtors and creditors. And internationally, capital market players often complain that it is the lack of clear rules that, in fact, inhibit investment.

Clearly, we have to resolve crises in a manner that will not cause private capital flows to dry up. But, equally, we have to make sure that countries are not forced to undertake draconian adjustment policies that lead to severe social disruption or the adoption of policies that provide only temporary relief and at the expense of neighbouring countries. Such outcomes are unacceptable. Avoiding this is the very reason that the International Monetary Fund was created in the first place.

As my fellow finance ministers and central bank colleagues gathered in Washington for meetings of the IMF and World

Bank, we were conscious of the fact that these institutions were created to help ensure that all the world's citizens share in the benefits of global trade and commerce. By moving ahead with a framework for the timely, orderly resolution of financial crises we will enhance this vision by building the rule of law for international finance.

Does this mean enough has been done? Clearly not. The clauses prescribed in the G7 action plan could only be introduced in future debt contracts. This will eventually mean that all outstanding debt would have them. But until then, we have not resolved the problem of restructuring debt that countries, such as Argentina, have already issued. That is just one of many areas in which we in the G7, and in the international community, have much more work to do.

Argentina shows us that this is an issue that affects the lives of millions around the world. There is a growing consensus within the international community on the kind of measures that Canada and others have advanced. The time has come to act. In the weeks and months ahead, we will be working to put the principles of the G7 action plan into effect. Our success will benefit countries, private creditors, global capital markets, and, I believe, the international community at large. But, most importantly, it will help the people whose lives are so directly and tragically affected by financial crises.

Paul Martin is Finance Minister of Canada.

Globe and Mail, Saturday May 11, 2002

Whereas Minister Martin is correct in identifying the need for an International Bankruptcy Court (Comment, Wednesday, May 8), he failed to mention that G7 discussions of this Court to date involve a key role for the International Monetary Fund. In some scenarios under discussion, the IMF would be the gatekeeper determining who can and who cannot initiate debt negotiations. Under others, the IMF itself would run the court.

What is needed is a fair, independent and transparent arbitration process, yet the IMF is neither fair, independent nor transparent. The IMF is a major creditor. Argentina alone owes it over \$22 billion. It is structured like a private corporation with a mandate to serve its largest shareholders. Although it has 183 members, the G7 control close to 50% of the votes. Like any corporation, it will act in ways to benefit its largest shareholders. Since suffering intense criticism from all sides for making the South East Asian crisis worse, the IMF has opened slightly, but meetings of its Board and governing councils continue to take place behind closed doors.

An International Bankruptcy Court must force the IMF, as well as other creditors, to take a haircut for loans it has made. The medicine it has forced countries to swallow has, as in the case of Argentina, only made things worse for the debtor and the other creditors.

An International Bankruptcy Court controlled by the IMF would be like asking Arthur Anderson to determine what went wrong at Enron.

Pamela Foster
Halifax Initiative Coalition
153 Chapel Street, Ste 104
Ottawa, ON