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MULTILATERAL DEBT RELIEF PLAN UNDERFUNDED BY BILLIONS OF DOLLARS

– U.S. Share of Additional Costs Estimated at $1.5-2.5 Billion –

WASHINGTON, D.C. – The costs of the official multilateral debt relief program appear to be significantly understated by between $5 billion and $9 billion, according to a new analysis prepared for Vice Chairman Jim Saxton of the Joint Economic Committee (JEC). The U.S. share of these additional undisclosed costs would amount to between $1.5 billion and $2.5 billion, depending on the assumptions used, including the exact number of qualifying debtor countries. The analysis was prepared by Adam Lerrick, an international financial economist and consultant who served as the senior advisor to the Meltzer Commission.

"The findings of this analysis are rather disturbing given the implications of the huge estimated financial shortfall in the current debt relief plan," Saxton said. "The U.S. Treasury and the international financial institutions (IFIs) should now explain why these costs were not disclosed in the first place, and how they will be financed.

"The U.S. share of the additional costs of the official multilateral debt relief plan would easily exceed $1 billion. Congress needs to be informed of these hidden costs so it can rationally evaluate the whole program at one time, instead of piecemeal. This appears to be yet another example of the lack of transparency in international economic policy.

"This analysis also corroborates the view that the IFIs have sufficient existing resources to finance their share of debt relief internally. The choice we must make is whether the IFIs should shoulder their share of the relief effort, instead of shifting it to the taxpayers of the donor countries, including the U.S.

"Finally, this new analysis confirms a recent General Accounting Office (GAO) study that warns that the official debt relief plan faces financing challenges and relies on optimistic economic assumptions to reach its projected alleviation of the debt burden on poor countries. In short, the official plan will not work as advertised because its underlying assumptions are faulty. Although the debtor nations currently are receiving aid inflows offsetting debt service payments, a failure of the official plan will be devastating to these poor countries in the long run since the debt burden will continue to undermine economic and social progress," Saxton concluded.

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