The Problem of External Debt*

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There is a massive problem of external debt building up for the third world, of which the recent Argentine debt crisis was only one manifestation. At the root of the problem is the collapse of primary commodity prices in the world market which began in April 2011. In March and April 2020 this fall of course has been precipitous, but even if we leave aside these two months which fall within the pandemic period we find that between April 2011 and December 2019 there has been a 38 per cent fall in the All Commodity Price Index prepared by the IMF (base 2016).

Since a large number of third world countries, especially in Africa and Latin America, rely crucially on primary commodity exports, the collapse in commodity prices has forced them into greater external borrowing to manage their balance of payments. Alongside the growth in external debt there has obviously also been a parallel growth in external debt servicing. But such debt servicing has now become absolutely impossible for most countries because of the pandemic and the lockdowns associated with it.

Such lockdowns have meant, as noted earlier, a further precipitous fall in commodity prices. They have also meant a fall in the volume of commodity exports, so that the value of exports of most third world countries have dwindled sharply. Two other factors have compounded the effects of such dwindling: one is the fall in remittances by workers working in the metropolis; and the other is the outflow of finance from the third world. Though the outflow which was sharp in March has abated somewhat, it has nonetheless left the balance of payments of most countries in an extremely precarious position. One consequence of this outflow has been a depreciation of many third world currencies, which has increased greatly their external debt burden as well as their debt-servicing burden (since the debt is contracted in foreign currencies).

But the debt servicing crisis is enmeshed with a crisis of public finance. A good deal of government revenue in these countries comes from taxing export earnings. With export earnings already dwindling before the pandemic and even more so after the pandemic, government revenues have taken a cut, which, in addition to the fact that the government budget has also to provide for the servicing of external public debt, makes the now- urgently-needed relief and healthcare expenditure that much more difficult to achieve.

Governments could of course finance such spending by enlarging the fiscal deficit, and preventing any inflationary fall-out of such enlarged deficit through supply-and-distribution management; but given the thraldom to global finance of most of these economies, any such move would lead to a resumption of outflow of foreign capital, compounding the problem for these countries even further. Hence even essential expenditure on healthcare needed during the pandemic, becomes difficult to provide because of external debt.

It is in this context that the third world countries have been asking for debt-relief and the G-20 has now come forward with a programme of “relief”. What this agreement envisages is that for all bilateral debt owed to governments by the poorest 77 countries of the third world, there would be an 8 month-deferment of all debt-service payments which were due between May 1 and December 31, 2020; but the debt-service payments to the IMF and the World Bank have to be made as scheduled (unless concessions are made separately), and also to the private creditors (again except to the extent that such private creditors allow relaxations on a voluntary basis). Debt repayments of such State-to-State loans which were due in 2020 may be postponed to 2022 and then spread over three years, 2022, 2023 and 2024. (The new debt-service payments which will be due after the period of 8 months is over, will presumably be worked out in accordance with the new repayment schedules).

This agreement, which was announced on April 16, 2020, has been hailed, not surprisingly, as a great advance; but in fact it shows the intransigence of the global finance and of the advanced country governments which support them. First of all, the entire agreement covers only State-to-State loans; it does not cover private creditors who have been left free to make their own concessions if they so wish. Secondly, this agreement visualizes only a postponement of debt and of debt-servicing, not a remission even of State-to-State debt by a penny. This means that when the time for repayment comes, a couple of years from now, there will be a bunching of debt-repayment. Since the export volumes of the poorest 77 countries would not have increased any further by then, and since the prices they earn on their primary commodity exports would be as subdued as they currently are, with the world economy continuing to be in a state of recession even two years down the line, this bunched repayment obligation would impose again an impossible burden on these countries. They would then be required to pay from their meagre export earnings not just the debt they were supposed to pay in 2022 but also in addition a part of the debt they should have paid in 2020.

This is not just a postponement of the debt crisis, and that too a very partial one at that, but a postponement that would actually make the burden of the crisis even heavier in the future. The only sensible course for the G-20 to have adopted would have been to cancel the external debt of the poorest 77 countries altogether, which would not even have been a particularly heavy burden on the G-20.

The total external debt of the 77 countries which are eligible for debt-rescheduling under the G-20 programme comes to 750 billion dollars, while the total GDP of the G-20 countries is 78.286 trillion dollars. The total debt of the poorest 77 therefore amounts to less than 1 per cent of the GDP of the G-20. Write-off of a debt that is less than 1 per cent of the GDP would have scarcely been arduous for the G-20.

In fact some years ago the Brandt Commission had suggested a target of 1 per cent of GDP of the advanced countries to be earmarked as aid to the third world countries every year. In other words the Brandt Commission was suggesting every year an amount of transfer from the north to the south that equals the cumulated debt of the poorest 77 countries that, many argue, should be written off.

When willy Brandt had suggested this figure, nobody had thought it to be excessive; on the contrary there was much enthusiastic approval of it, though no country of course implemented it. But the point is that 1 per cent of the GDP of the G-20 being devoted to a debt-write-off, and that too not every year but just once for all, is not a big deal by any stretch of imagination. Even this however is not what the agreement signed by the G-20 provides.

The debt crisis is not just a third world phenomenon. Even many EU countries like Greece, Spain and Italy are afflicted by it. So we are going to hear much about it in the days to come. If the wrecking of the economy that was carried out some years ago by the German banks vis-à-vis Greece is not to be visited upon other indebted EU countries or the poorest countries of the third world, then a total debt-write-off for the poorest countries, and at least a partial write-off for the afflicted EU countries, would have to be undertaken.

But if it is not, and finance capital continues to show its bloody-mindedness, then there will be a very strong movement within the afflicted countries for enforcing such a write-off. Put differently, if finance capital does not voluntarily accept a debt-write-off, then it will have to face an upsurge among the people for such a write-off. To imagine that we can simply go back after the pandemic gets over to the days of unquestioned hegemony of finance, when countries submitted meekly to its diktat, is foolhardy.

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