Debt Is A "Financial Weapon" Used to Subordinate Developing Countries

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"The total amount of third world debt has already been repaid six times over in interest."(1)

As of 2020, the total amount of debt owed by developing countries was $11 trillion.(2) The cost of interest on this debt was hundreds of billions of dollars per year, or over $1 billion per day. This is many times greater than the aid given by rich countries.(3) This post summarises the main reasons why countries should not have to repay all of their debts.

Borrowing Money for Weapons: Paying For Your Corrupt Boss' Crimes

"For years, rich countries willingly provided loans to the dictatorship in our country. Now, we are asked to pay for the bullets which were fired at us."(4)

A close look at the reasons for lending in specific cases highlights the unfairness of the system. It has been estimated that from 1960-1987, developing countries borrowed $400 billion to spend on weapons. Much of Iraq's debt was due to money lent to finance Saddam Hussein's war with Iran in the 1980s.(5) We saw in earlier posts that most money spent on weapons by the poorest countries comes straight back to much richer countries, lining the pockets of shareholders and executives of weapons companies.(6) The Indonesian dictator, Suharto, received loans for tanks and warplanes that were used to slaughter hundreds of thousands of people. The Indonesian people are expected to repay those loans. The same is true of many countries that used to be run by dictators. Britain and the US helped to keep these dictators in power, against the wishes of their people, yet the people are still expected to repay their dictators' debts.

We saw in an earlier post that sanctions (depriving a country of basic essentials) can cause devastation, yet people from many countries, including Iraq, Panama and Vietnam, have been expected to repay loans whilst suffering from sanctions imposed by rich nations.

White Elephants – The money goes to companies and consultants from rich countries

Large amounts of money has been lent to finance huge projects that are of little value to ordinary people. These are known as white elephants. The most obvious of these would be nuclear power plants that were finished 20 years behind schedule and cost many times their original estimate, producing some of the most expensive energy on Earth. Forty-five thousand dams have been built, displacing fifty million people and costing $2 trillion. Many went way over budget, such as a South American dam that was expected to cost $3.6 billion but ended up costing $21 billion. It was described by the former Paraguayan minister of energy as “possibly the largest fraud in the history of capitalism.” Some dams were designed so badly that they unexpectedly flooded thousands of square miles of land, and produce much less energy than expected. Where private contractors are running these powerplants, governments have ended up with contracts where they have to pay for energy that is not used.

Railroads have been constructed that run “from no place to nowhere.” Again, many of the loans for these projects went into the pockets of wealthy shareholders and executives of construction companies in rich countries, together with consultants from those countries. There is even a capital city in Nigeria called Abuja that was built in the middle of nowhere and seemed for many years to have no purpose. The Nigerian people have a joke about the city. They ask God if ordinary people will ever see the benefits of Abuja. He responds “Not in my lifetime.”(7)

The System Is Rigged Against Borrowing Countries

When a developing country borrows money from international lenders, it usually does so using an established currency, such as US dollars. The exchange rate with its own currency can fluctuate. Some borrowing countries are actually encouraged to change their exchange rate (this is known as devaluing their currency) making loans more expensive to repay. The interest rate is often high and can also fluctuate.

Some loans are used to grow crops for export, but the price of these crops also varies. In 1999, Nicaraguan coffee sold for $1.44 per pound. By 2002, this price had dropped to $0.40 per pound. This means they have to sell three times as much coffee to pay their debts. All three of these factors, exchange rate, interest rate and prices, are beyond the control of the borrowing country – they are controlled by traders and banks in rich countries. In theory these rates can go either way, but in practice poor countries have repeatedly lost out.(8) Conditions can easily change sufficiently that poor countries can no longer afford to repay debts, through no fault of their own.

If the price of coffee drops below the price of production, then it does not matter how much coffee is sold – there is zero profit, and coffee sales cannot be used to repay the debt. Most developing countries have provided enough coffee, cocoa, cotton, cobalt, gold, oil and diamonds (and everything else that they export) to pay back their original loans many times over, yet they still have huge debts. Unlike businesses, countries cannot declare bankruptcy. Banks try not to write-off debts, so they keep lending ever-more money to borrowers to pay off their earlier debts, together with the interest on those debts. The debt just keeps getting bigger. An observer in Nigeria pointed out:

“We borrowed $5 billion. We have paid back $16 billion, but we still owe $28 billion”.

Rich People Keep Stealing the Money

Nigeria provides a good case study of debt and capital flight. The best estimate of the total wealth stolen by corrupt dictators and their cronies since 1960 in Nigeria is $120 billion.(9) This is enough to repay their debts many times over. The same is true in many poor countries. Two leading experts wrote:

> "Of the money borrowed by African governments in recent decades, more than half departed in the same year, with a significant portion of it winding up in private accounts at the very banks that provided the loans in the first place"(10)

The Destructive Power of Compound Interest

The effect of compound interest on loans to developing countries is extremely important. If a country borrowed $1 million in 1980 at 7% interest, the total debt would now be approximately $16 million. When interest rates are very high, the debt increases more rapidly. If we re-do the same calculation at 14% interest, the total debt would be $250 million. If the interest rate on a loan is even one per cent too high, then the borrower pays a considerable amount of extra interest over a long period of time.

The system of excessive interest on international loans is a deliberate mechanism to transfer wealth from poor countries to rich ones, or from governments to rich people. In the 1980's and 1990's, many South American countries experienced serious problems due to excessive interest on their debts.(11) In an extreme example, the Argentinian government was paying 45% interest on loans (known as dollar bonds). Many of these bonds were owned by wealthy Argentinians. The leading expert on the system, Michael Hudson, has explained that these bonds are actually a complex mechanism to help the rich take their money out of the country.(12)

It's All About Conditions

Most people think of loans as having two parts, the capital and the interest. In the international world there is a third part – the conditions that come with the loan. This is arguably the most important part. Countries that want to borrow can be more easily persuaded to follow the guidance of advisors from rich countries, to privatise their industries, and to open up their markets for further exploitation by big corporations. In order to qualify to have the debts written off, countries have to implement these same policies.(13) The manipulation of these debts is a means of helping rich countries and their corporations take control of resources and trade in poor countries. Many of these countries have effectively been conquered economically.

Governments from developing countries have been advised to decrease spending on basic necessities (known as austerity), but at the same time they have been forced to keep paying their debts. Nicaragua spends four times as much on debt as on education.(14) One expert on Mozambique said:

> "A large share of the government revenues of Mozambique have to be spent on servicing the debt. Little is left for health, education and water provision."(15)

The interests of banks and investors are considered more important than the lives and health of billions of people.

Debts can, and should, be written off

If we write off all debts that were spent on weapons, that were used to support murderous dictators, that were stashed in personal offshore bank accounts in tax havens, that were spent on grand schemes of little benefit to the population, that lined the pockets of Western consultants, or that have grown enormously due to excessive compound interest, the amount outstanding would be very much less than the amount that rich countries still want repaid. If we then deduct the amount already repaid, it would almost certainly be less than zero. Governments and banks in rich countries do not want to do these calculations, because they do not want to admit that the whole system is so corrupt. When researchers examine in detail what happened to the original money that was loaned to specific countries, they conclude that much of the outstanding debt should be canceled.(16) For example, when loans to Ecuador were analysed, some of them violated international law, as well as domestic laws in lending countries, and laws in Ecuador.(17) In total, $3 billion of Ecuador's debt was illegitimate. The technical term for this is odious debt.

Writing off debts is nothing new. This has been a regular process for thousands of years,(18) and various multi-billion dollar loans to the US and Europe have been written off over the years.(19) Our politicians occasionally write off some of the debts of the poorest countries, but they are rarely as generous as they claim. In some cases, aid is reduced by the same amount as the debt written off, so poor countries get no real benefit. Some schemes do not end debts altogether. They merely reduce them to a level that rich countries consider 'sustainable.' What this really means is the greatest amount of interest that can be extorted each year without quite tipping a country into revolution and civil war**.** The debt written off in recent years is just a small fraction of the amount owed.(20)

The propaganda related to debt is very powerful. Most people have been conditioned to believe that we all have a moral obligation to repay debts.(21) The idea that debts are a powerful mechanism for controlling or exploiting others is rarely discussed. We need to change the whole framework of discussions around debts, and force lenders to accept responsibility for their criminal or unethical practices. In business, it is accepted that debts can be written off. Lenders accept that when they make a loan, there is a risk that they will not get their money back. The same should be true of international lending.

This is a Huge Problem for Some Rich Countries Too

These issues became much more apparent to people in rich countries, when Greece was forced to pursue austerity, in 2010, as a condition of its debt arrangements. Portugal, Ireland, Italy and Spain also suffered. This had devastating consequences for the people of these countries, particularly the poor. Their situation is particularly difficult as they use the Euro as their currency, which gives them much less control over their finances.

A golden rule for all countries should be to borrow as little as possible in foreign currencies. If a country can create its own currency, it can be used to pay local people to do most of the things needed for development. It is straightforward to set up a national healthcare network, to set up a national system of schools and universities, to train doctors and engineers, to build a country's infrastructure, or to begin the process of industrialization. It has been done successfully even in very poor countries. Forcing countries to borrow money denominated in US$ is a deliberate strategy by the US to maintain its power.(22)

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Notes

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