

Are we heading for another debt crisis? If so, what should we be doing?

7 December by **Duncan Green**

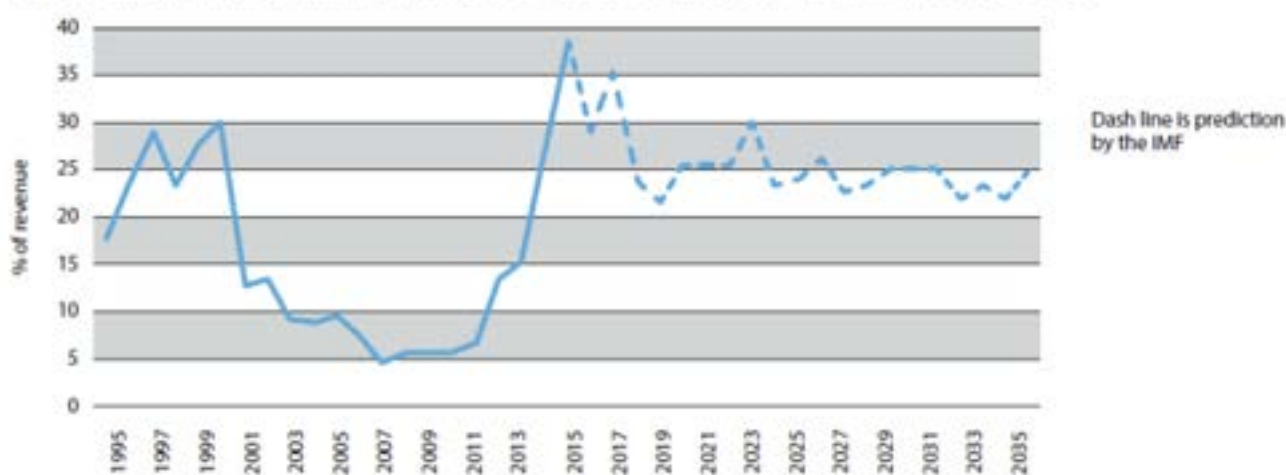


Just when you thought life couldn't get more retro (Leonard Cohen on the radio, post-Brexit trade negotiations, impending nuclear war), here comes another debt crisis. Probably. Had a good briefing from some key wonks in [Development Finance International](#) and the [Jubilee Debt Campaign](#), two small but vital watchdogs that play a vital role in maintaining capacity on important issues when they drop down the policy agenda a bit – see JDC's recent paper on [Ghana's debt](#), or DFI's work on [government spending](#) in poor countries. Such outfits can sound the alarm with some authority when they spot bad stuff coming down the line, which is what they were doing with us last week.

They see another debt crisis for the poorest countries, albeit with a few differences compared to last time (the 90s and 00s). [Debt service](#) as a percentage of government spending in low and low-middle income countries is up to an average of 27% of total government revenue, which is a pretty severe burden on cash-strapped countries that really need to spend on schools, hospitals, infrastructure etc.

Triggers for the current squeeze include some similar factors to the last time: the commodity price crash has starved governments of revenues with which to service their loans, especially in countries that have failed/been unable to diversify out of commodity dependence. Potential rising dollar [interest rates](#) could add to the pressure (and the retro feel).

Graph 14: Ghana government external debt service as proportion of revenue, 1995–2035⁸¹



Main differences this time around are:

- Much greater role for domestic debt, i.e. governments borrowing from their citizens, or in their own currencies, often at much higher [interest](#) rates than for international loans
- Greater role for international bonds – lots of governments have entered [bond](#) markets, partly to send signals of their market friendliness: issuing international bonds has become the modern version of setting up a national airline – a symbol of national pride.

The rich countries have contributed by switching aid from grants to loans, encouraging [Private Public Partnerships](#) (which load future debt service onto governments) and generally pushing private sector solutions and ‘financial deepening’ in a pretty indiscriminating way. Cue lots of banks and other lenders spotting big profits and piling in.

Some of the sources of vulnerability to crashes are also familiar: there is still no agreement on a way for countries to [restructure their debts along the lines of private sector bankruptcy proceedings](#); as the debt burden rises, lenders are once again starting to do circular lending – issuing new loans that are just used to service old ones, allowing countries to maintain the appearance of keeping up with their repayments but at the cost of spiralling debt with few benefits to local citizens.

Many in the [IMF](#) and [World Bank](#) are concerned and are revising their ways of looking at debt levels to take more account of domestic debt and PPPs. The IMF even warned strongly about rapidly growing debt burdens during its recent Annual Meetings. But some in the multilateral development banks and aid agencies are heavily invested in PPPs as a solution for infrastructure financing, and are reluctant to accept that they have been fuelling the problem.

So if debt campaigners are going to scale up, get back on the Jubilee 2000 horse etc, what might debt-campaigners-2work?

The first issue is to get the debt problem on the agenda – that means bearing witness, killer facts on how much health care and education is being eaten up by debt service payments. Support from influential economic [journalists like Larry Elliott](#) also helps. Developing country governments are reluctant to sound the alarm for fear of precipitating just such a crisis, so in their absence maybe get some irreproachable global authority figures to say there's a problem (the Pope? Gordon Brown? Kofi Annan?)

Another challenge is to start thinking through the responses at national level. It's all very well pissing off international markets, but the politics of alienating your middle class creditors by restructuring your domestic debt can be very toxic – witness the El Barzón movement which led to the ousting of a 70 year ruling party in Mexico in the mid 90s. One potential ally is the many CSOs that have got involved in budget monitoring and accountability work, who could form the core of a revived interest in debt. Another is parliaments in developing countries that want to hold their governments to account.

Intellectually the far greater level of policy interest in inequality should help to focus minds, as debt exacerbates inequality by giving large profits and interest payments to the wealthier, but loading the burden of crises onto the poor through spending cuts), and taxation (as an alternative to debt).

What would help is a clear narrative on what we are for, as well as what we are against – what constitutes responsible lending/borrowing, and where has it taken place? In terms of lending, [UNCTAD](#) and CSOs have proposed some clear guidelines, and some governments have been more responsible by continuing to provide grants and very cheap loans to poorer countries. On the borrowing side, Ethiopia and Rwanda have borrowed somewhat more wisely, building up the economy without racking up very high debt service – human rights advocates aren't going to like that, so any others?

In terms of old-school 'problem/solution/villain' campaigning, PPPs and [Vulture Funds](#) provide some handy villains, and deserve a good kicking.

But one thing that's changed since the 1990s is that domestic civil society is calling the shots far more these days. CSOs in Mozambique and Ghana reportedly don't just want debt cancellation – they want to make sure the crisis leads to greater levels of transparency and accountability, rather than simply letting off a 'bunch of crooks'.

There's also a challenge for any Northern campaign, when supporters say 'didn't we already fix this?'

There are two answers to this – one that we didn't fix the system which leads to rapid debt growth, just the symptoms of debt crisis, and two that many of the countries affected now are different from those which were "fixed" before (as previous debt relief went to only the poorest and most indebted countries).

Finally, there will be crises, and those constitute 'critical junctures' for a campaign – how campaigners prepare in advance, and respond to those crises will be decisive.

Anyone else thinking about this?

See online : <http://oxfamblogs.org/fp2p/are-we-h...>

<http://www.cadtm.org/Are-we-heading-for-another-debt>